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The MAGAZINE of WALL STREET

and BUSINESS ANALYST

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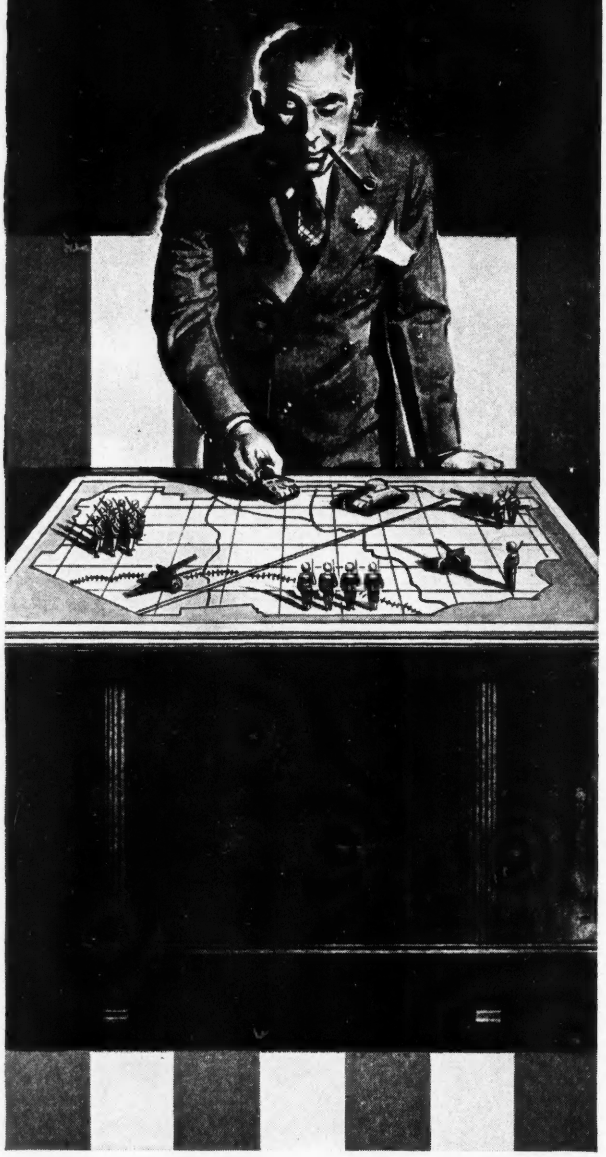

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This advertisement prepared under the auspices of the War Advertising Council and the U. S. Treasury Department.

LET'S KEEP ON Backing the Attack!

THE MAGAZINE OF WALL STREET
and BUSINESS ANALYST

Member of Audit Bureau of Circulations

Volume 73, No. 2 — October 30, 1943

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SUBSCRIPTION PRICE—$10.00 a year in advance in the United States and its possessions and Pan-America. Canadian and Foreign Postage, $1.00 additional per year. Please send International Money Order or United States Currency.

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VICE PRESIDENT AND TREASURER

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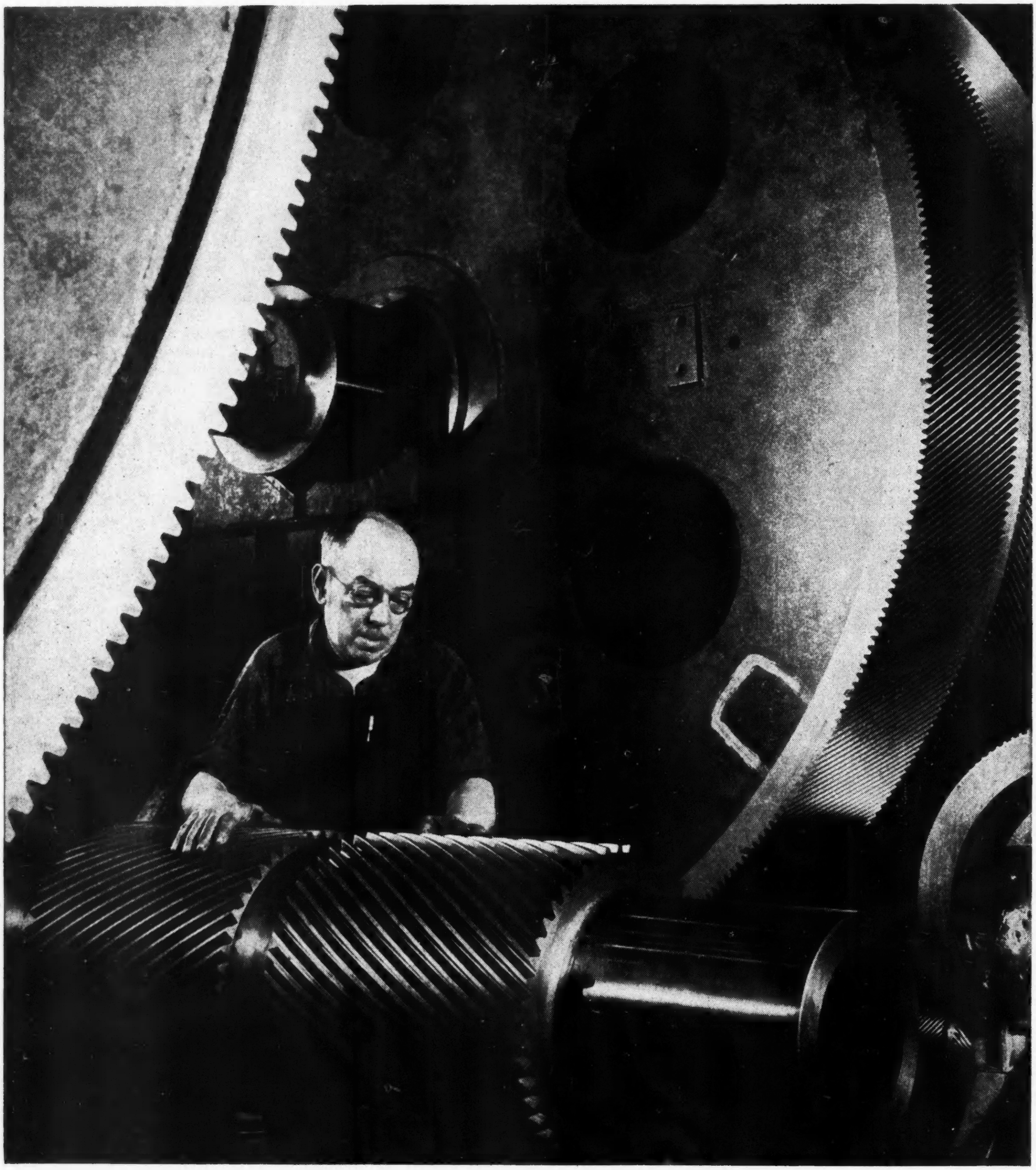


General Electric Company

American manufacturing industry this year will make a much bigger volume of "things" for war than it ever produced for our civilian markets in the most active pre-war years. To "liquidate" our war production and switch back to full peace production without an intervening economic tailspin and widespread unemployment is going to take some doing, and very careful advance preparation. Fortunately, much of the planning is being done in advance, as discussed in the special article on page 71.

THE MAGAZINE OF WALL STREET

C. G. Wyckoff, *Publisher*

Laurence Stern, *Managing Editor*

The Trend of Events

THE FINAL STAGE . . . As we near the limit of our producing capacity, shortage of labor looms large as the No. 1 problem. In the solution of this problem there are two general approaches. One is compulsory selective service for civilians; the other is more effective use of the available labor force, partly through inducement, partly through limited and selective Federal controls.

The former would present problems of administration, transportation and housing which its advocates consistently under-estimate. Besides, it would probably take months to get a selective service law through Congress, if it were accepted at all. Meanwhile, fortunately, the Baruch plan of labor allocation—now in full operation in Seattle and to be applied in more and more centers of acute labor shortage—is showing sufficiently promising results to suggest that it may be an adequate solution of the problem. Most effective feature of this program is the cancellation, or the threat of cancellation, of less urgent war contracts. Cancellation frees workers for the most essential jobs. Threat of cancellation forces employers to find ways of getting along with less labor and to cease "pirating."

Thanks largely to Mr. Baruch's hard-headed common sense in getting adoption of this labor control method, the next report on aircraft production will show gratifying increases in output of 4-motor bombers in recent weeks, with October a banner month.

The further production increases required are mostly in ships and aircraft and related equipment. If a reasonable further test justifies present hope that the Nazi submarine threat has been beaten, it may be possible to trim down or stabilize the shipbuilding program, just as various other types of war production have been cut back or stabilized. This would, of course, substantially ease the over-all labor needs. Though there is no ground for complacency, it is a fact that the actual difficulties encountered in the war production program—first war plant construction and machine tools, then materials, then transportation—were consistently exaggerated. It is not improbable that this will also prove true of recent and present fears regarding the labor supply.

HOW LONG RECONVERSION? . . . Quite a few companies now engaged in war work have issued estimates of how long they think would be required for their plants to be reconverted to peace production.

Business, Financial *and* Investment Counselors : 1907 — *"Over Thirty-Five Years of Service"* — 1943

Thus, Mr. Alfred H. Sloan, chairman of General Motors, has said his company could turn out the first post-war automobile within four months after reconversion starts, and attain full production in six to seven months. Against this, managements of office equipment concerns say they will require a year or more, which looks high to our non-expert eyes.

Mr. Sloan's calculation, of course, is made on an engineering basis—with no illusion that the problem can be merely a physical one under the full control of management. Actually, the duration of the reconversion period will be determined more by Government policies than by anything plant managers can do about it. The first decision, which events will largely shape, will be how rapidly to taper off war production. The Government will still control the allocation of essential raw materials. There will be much preliminary "paper" work involved in "unscrambling" plants in which much of the equipment and materials belongs to the Government.

However, the amazing record achievement in rapidly converting this peaceful nation to the world's most awesome output of arms—an achievement in which both industry and the Federal control agencies deserve full credit—warrants every confidence that our reconversion problem will be solved without undue delay—and probably more rapidly than many expect.

PRICE-WAGE STABILIZATION . . . Although the cost of living has declined slightly in recent months, organized labor has again become "restive" after a brief period of relative calm. Demands for higher wages are increasing. So are the number and importance of strikes. On the other side of the wage-price equation, the farm bloc in Congress continues to do its periodic bit for the cause of food price inflation, the latest example being the action of the House Banking and Currency Committee in voting against continuing the limited program of food subsidies beyond Dec. 31.

If it were left to organized labor, clearly there would be no stabilization of wages; and if it were left to the farm bloc, there would be no stabilization of food prices. What is mainly preventing a very dangerous inflation spiral, therefore, is the thus far firm insistance of the Administration that both groups "behave," in which insistance it has full backing of public opinion. For the record, the farmers have far more income—and that income has far more purchasing power—than ever before in history. For the record, hourly earnings of industrial workers have risen 41.8 per cent since the start of the war, and weekly earnings 69.3 per cent, against an average rise of 22 per cent in the nation's cost of living. In short, farmers and industrial workers have gained special advantage—at the expense of other elements of the population—and all they want is still more group favor.

On the other hand, the Administration's "Little Steel" wage formula has been unrealistic and clumsy from the start. It would be more practicable all around—and would put the farm bloc on the defensive—to tie wages and wage increases directly to the cost of living, as has been done in Canada, with the largest supplemental payments for any increase in living costs going to the lowest paid workers. There are reports that the Administration is considering such a change. It would enhance, rather than weaken, the prospects for adequate economic stabilization.

OIL DOINGS. . . . The contemplated sale of 1,000,000 shares of various Standard Oil companies by the Rockefeller interests, and its subsequent indefinite postponement for undisclosed reasons provided not only a surprise market factor recently but a considerable mystery as well, setting many people to wondering what it is all about. Original announcement of the sale was accompanied by indications that proceeds would be used to add to the already extensive Rockefeller holdings of war bonds. Most observers were inclined to suspect tax considerations as the primary motive, for very large estates require increased liquidity. The subsequent postponement remains unexplained but rumors have it that a demand by the SEC for a registration statement of the five companies involved may have caused the delay. This is entirely thinkable though other reasons, including market considerations pure and simple, may well be back of it.

However it seems somewhat difficult at this stage, to construe, as some do, a connection of this affair with the recent flood of rumors that the Government through its Petroleum Reserve Corporation is planning to take an active part in foreign oil operations, chiefly in Saudi Arabia and the Persian Gulf region. There is little doubt that something interesting is transpiring in Arabian oil and the Government's role may well transcend that of an interested spectator. Recent presence in Washington of important Arabian personages and appointment of a petroleum attache by the State Department for assignment to the Near East—as reported elsewhere in this issue—are significant straws in the wind. One might even argue that withdrawal of the Rockefeller stock offer *could* be due to a sudden Government decision to take a proprietary interest in it. Again, we do not know but the situation may well bear watching. Where there is smoke, there is usually fire, and there is plenty of "smoke" in the foreign oil field at this very moment.

THE MARKET PROSPECT . . . Our most recent investment advice will be found in the discussion of the prospective trend of the market on page 59. The counsel embodied in the feature should be considered in connection with all investment suggestions, elsewhere in this issue. Monday, Oct. 25, 1943.

BUSINESS, FINANCIAL *and* INVESTMENT COUNSELORS : 1907 — *"Over Thirty-Five Years of Service"* — 1943

As I See It! BY CHARLES BENEDICT

THE AFTERMATH OF POLITICAL EXPEDIENCY

MEN frequently wonder why matters which lend themselves to commonsense and logical solution should be lost in a fog of indecision and uncertainty. It is very aggravating that this should be so. And, if we look behind the scenes, we are sure to find some emotional cause having its roots in fear of one sort or another. This is true in matters which affect nations, as well as the lives of individuals.

Thus, today, when commonsense calls for the making of plans for constructive action to restore and bring peace to the unhappy people of Europe, we find instead a scheming on every side, leading only to inner conflicts which may prolong the miseries of this war for many years to come.

Europe has always been a hotbed of political intrigues which have so sapped the strength of the various countries that they fell an easy prey to the machinations of the most cunning. That is what happened in Germany and in France — and what seems to be going on today in Yugoslavia, Greece and the other occupied countries in Europe. It was responsible for the Napoleonic wars. It was responsible for the first World War, as well as this one.

It will take the wisdom of a Solomon and the patience of Job to reconcile the conflicting ideas, aims and plans for the self-preservation of the three great powers meeting in Moscow. It will be a difficult task at best to allay the deep-rooted suspicions engendered by pre-war politics—to overcome the new hatreds produced by the suffering in this ruthless conflict—and to prevent unreasoning fears from endangering the making of commitments for future security.

And yet it must be done, if political and economic strife is not to continue for years after the Axis has been beaten.

Each of the powers holds grievances against the other. Stalin's suspicions center mainly around England's aims, not only because of her pre-war animosity toward Communism and her early sponsorship of Hitler, but because of her historic role in fighting revolutionary movements on the Continent.

Russians argue that England's position in relation to the Russian revolution was the same as her reaction to the French upheaval. England at that time formed a coalition to knock out the French revolution, but Napoleon did not wait for the other countries to attack; he took the initiative. Stalin, however, was unable to do this because of Russia's vast problems including inexperienced industrial and military leadership. She had to start from scratch to prepare for the attack which she was always expecting.

And now, at the conference, it will be Mr. Eden's task to dissipate the doubts as to England's sincerity under today's circumstances, while Marshall Stalin will be called upon to dispel suspicions regarding his aims, both politically and territorially, so that England and the United States can see where they are heading. To Secretary Hull will fall the task of clarifying our position in relation to Russia—and towards winning a compromise and the kind of post-war collaboration (*Please turn to page* 104)

Sovfoto

Secretary of State Cordell Hull when recently met at Moscow Airport by Foreign Commissar Molotov.

The Wisest Market Policy Now

The stock market has recently withstood another test of the August lows in encouraging fashion, but the averages remain in the same indecisive trading range. In the absence of a convincingly bullish technical pattern, we continue to advocate caution.

BY A. T. MILLER

For the present the market is without recognizable trend. Investors and traders are undecided; and hence are disinclined, on the average, to do much buying or much selling. Those holding stocks are mostly inclined to sit tight; those with idle cash are mostly inclined to keep it idle.

It is one thing—and not good—to be confused in one's own mind. It is quite another to recognize a state of confusion in the market—and wait calmly for it to end with a clarification of events or the crystallization of a dynamic trend "sentiment", whether bullish or bearish. One can not look around a corner before it is turned; and even to be right on the fundamentals that supposedly determine stock values is no assurance of being right in the timing of the market's response to them.

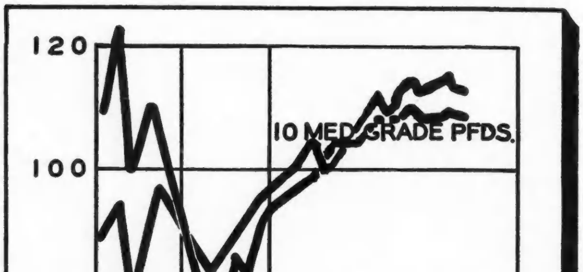
In such periods of confused "indetermination"—and they occasionally last for some months—the most practical policy is to let the market tell its own story. Nothing very positive has been added to the story since our last previous analysis was written a fortnight ago. However, the few straws that have been added are more on the hopeful side than otherwise, as follows:

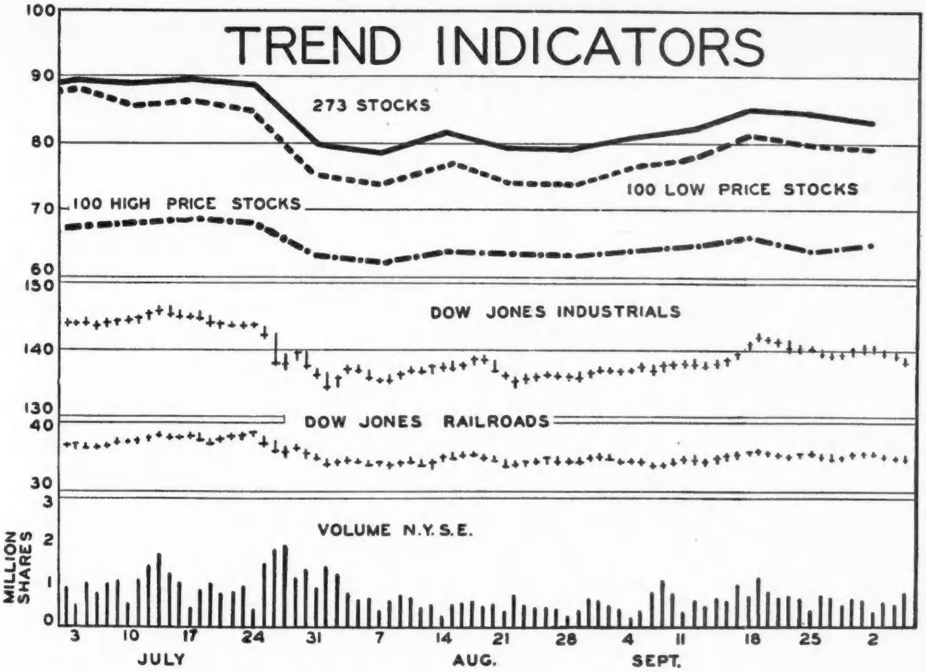
(1) A four-week downtrend from the September high—which was 141.75 in the Dow industrial average on a closing price basis and 142.50 intra-day high—petered out at approximately the 136 level. This was the second test of the August 2 intermediate reaction low of 134, a previous minor reaction in late August having terminated at approximately the 135 level. Thus, the market for nearly three months has held above the significant intermediate resistance level. Clearly there is no cumulative liquidating urge. Probably it would take some entirely new impulse—whether from news events or important psychological change—to break the 134 level and send average prices importantly lower.

(2) Despite the negative upside action of the market, taken as a whole, investment funds on balance are continuing the selective search for employment. This is seen especially in demand for speculative and semi-speculative preferred stocks and bonds. Demand for risk-type preferreds and bonds has never been characteristic of a true liquidating market. Buying of such securities in much of 1934 and early 1935, when equities were without dynamic trend, proved to have been forerunner to the eventual bull market of 1935-1937.

(3) In at least one respect we have had some clarifying news over the past fortnight in that it is now indicated that there will either be no rise in corporate taxes legislated this year or, at worst, only a slight rise. Moreover, by a decisive majority the House Ways and Means Committee at this writing has just voted against any further rise in personal income tax rates. This will not preclude November-December "tax sales" for the purpose of registering capital losses, but it no doubt will greatly modify the inclination of investors to take profits for tax registration purposes as a hedge against higher income tax rates in 1944.

But none of this adds up to reliable clues as to when and by how much the market may rise above





that either an extension of the prevailing trading range in the averages or the establishment of lower prices is more likely from an intermediate point of view than renewed major rise. November-December markets are frequently confused and devoid of strong trend. On the long back record, these months have more often brought lower prices or minor price changes than important advance.

Probably one supporting element in the present market is the belated recognition that 1943 corporate profits—which figure in the aggregate to be about 13 per cent greater than last year—are better than had earlier been expected; and that, in the absence of important tax rise, they are likely to be at least equally good in 1944, assuming continued war. On considerably lower earnings in 1936-1937 we saw stock prices much higher than now—but probably the general tendency to avoid normal bullishness on war-time earnings will continue.

On a dividend yield basis, the average price level is neither high nor low but, by coincidence, at almost precisely the average, or mean, level of the past 40 years. On every count, then, the situation seems to call for moderation in viewpoint and investment policy, as well as careful selectivity. We have previously advocated—for investors for whom it is feasible—a 50-50 policy: half of available funds in securities, half in cash. We see no reason to change that advice now. As regards selectivity, few of the better "peace" stocks look cheap to us; and present improved action of "war stocks" seems too tentative to warrant high hopes.

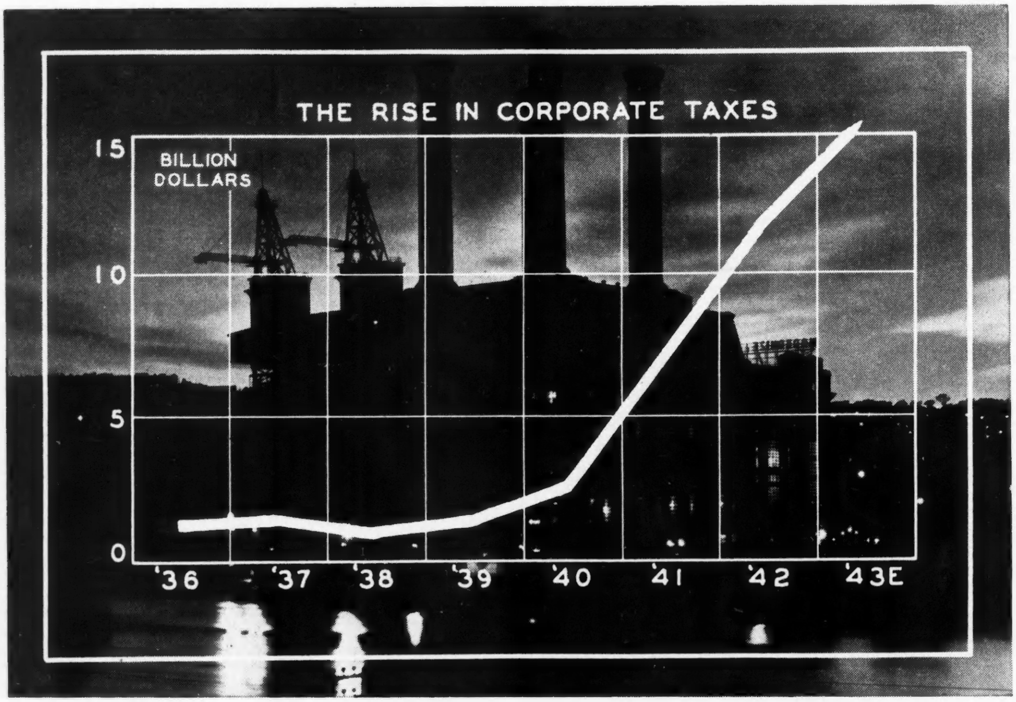
Increased selectivity always is emphasized in a trading range market. In the early months of 1940 various "outriders" fed bullish hopes — only to slump promptly with the averages when the German sweep into the Low Countries and France brought a dynamic change in general market sentiment. In the present situation the change in technical pattern thus far is a flattening out or slight recession in uptrend lines of previously favored stock groups; and a flattening out or slight improvement in previous downtrend lines of the "war stock" group. Whether the latter is of lasting significance remains to be seen. If a basic turn is being made, it probably will be gradual.—Monday, Oct. 25.

either the trading range high of September, around 142, or the bull market highs of last July at 145.82 in the industrials and 38.30 in the rails.

The fundamental economic-financial factors suggest probability of a redundant money supply for years to come, a bullish level of business activity for several years after early post-war reconversion, a generally bullish level of corporate profits during that period, and a probable tendency of investors and speculators to put a considerably higher valuation on any given level of earnings than at present. It is not at all hard, therefore, to arrive at the reasoned assumption that "ultimately" average stock prices are more likely than not to be substantially higher than at present.

But the market was discounting these longer-pull potentialities—not war-time earnings—in its strong advance for many months prior to the making of the July top. The question yet to be answered is whether it can any time soon resume that former pattern of dynamic rise; or whether there must be an extensive "wait and see" period while investors strive to evaluate the meaning—in terms of stock prices—of the interim phase of early post-war economic readjustment; or whether, incident to the end or anticipated end of the war in Europe, stock prices will gravitate to a materially lower base-level upon which a subsequent major phase of sustained advance can be erected.

The answer may be some time in coming; and we say frankly that we have no strong present opinion or hunch about it. If a tentative opinion be demanded—with little or no factual support from the presently available technical evidence provided by the market's own pattern—we would say that we believe



Corporate Taxes Near Peak

Further Boost In Doubt

BY WARD GATES

On October 5 the Treasury announced a proposed tax program the backbone of which consisted of stiff increases on corporations and very drastic increases on middle-income and upper-income individuals.

The next two weeks saw this program subjected to an increasing barrage of criticism by the press, by members of Congress and by numerous witnesses before the House Ways and Means Committee.

For a brief time the alternative idea of a general sales tax was tentatively and hopefully aired—only to wither under the joint attack of organized labor and the Treasury.

On October 19 the ten Republican members of the Ways and Means Committee announced they had decided to oppose any further tax increases on individuals and corporations at this time; House Republican Leader Martin said he felt the same way about it; and Democrats in Congress conceded that the odds had shifted heavily against any general tax revision.

SUCH, in brief outline, may well be the complete history of 1943 tax legislation—or, rather, the absence of it. As this is written there is a fair possibility of minor action on selective excise taxes and on some degree of tax simplification—which is a matter of form rather than revenue substance—for individuals and corporations.

Moreover, there is a faint but dubious possibility that some version of a general tax program may arise from the present ashes; but, if so, it will be a Congressional program from top to bottom, rather mild, and patched together from recommendations of Congressional, rather than Treasury, tax experts.

In its own way, our national retreat on taxes is even more precipitate than the German retreat in Russia. At the start of the year the Administration was publicly "talking" up a $16,000,000,000 program. A few months later it began to put up trial balloons on a $12,000,000,000 program. After long study, the Treasury formally hit on $10,500,000,000. Senator George, most influential tax-maker in Washington, said $5,000,000,000 to $6,000,000,000 would be absolute tops. The more cynical—or politically wise — press observers in Washington put their bets on $3,000,000,000 to $4,000,000,000. Now it looks like nothing!

There are several reasons for this flop: (1) All factions have played—and are continuing to play—politics with the taxation issue; (2) though you wouldn't gather it from reading the newspaper edito-

rials, there is effective public opposition to an increased tax burden and Congress knows it; (3) it was impossible to command support for a tax approach to the inflation problem when it immediately became apparent that even the onerous Treasury program would still leave a very wide "inflation gap" and only moderately slow the rate of Federal debt expansion; and (4) rising hopes for a relatively early end of the war, which makes Congressional politicians all the more leery of imposing higher levies payable in the election year 1944.

So now we have the apparent paradox of the Republican Party, the National Association of Manufacturers and other "conservative" groups opposing increases in income and corporate taxes and generally "playing down" the threat of inflation, though the same groups were denouncing New Deal "inflation" as far back as 1934-1935-1936 when the Federal deficit was a small fraction of what it is today! While, on the other hand, our supposedly Left-of-Center Administration professes to be deeply alarmed over the inflation prospect.

But it is not a paradox—least of all when the issue is reduced to elementary political terms. The fact is that the Administration's proposed program would fall most heavily on the middle-class and well-to-do groups from which the Republican Party derives the bulk of its following; while from the lower-income group, which preponderantly votes New Deal, the Treasury suggestions would actually remove some 9,000,000 present payers of the Victory tax from the Federal tax rolls altogether! There's an election coming, ladies and gentlemen.

Politics a Big Factor

And there's plenty of politics also in the sales tax issue—as well as some nicely balanced pros and cons not at all political. So far as concerns the politics of it, it is enough that organized labor is adamantly opposed to any general sales tax. That alone is enough to doom it in the eyes of a majority of both Democratic and Republican politicians in Congress. The over-all Republican strategy in Congress is to wait for the breaks and let the Democrats assume the political risks of losing friends and influencing people the wrong way. The Republicans will no more sponsor a sales tax than they will sponsor rewriting of the Wagner Act, labor's prized and one-sided Magna Charta.

But, aside from politics, the arguments for a stiff sales tax make much less sense now than they would have made early in our war effort before the present income tax structure was erected, and before we reached the present strained position in labor supply and the present precariously balanced situation in labor relations.

It is true that the American people's total income this year will be at least $25,000,000,000 greater than last year. Therefore, any argument that the "public" as a whole can not afford to pay at least $5,000,000,000 to $6,000,000,000 more in taxes seems ridiculous on the face of it. This is the reasoning so logically advanced by "conservatives" who favor both a sales tax and higher income taxes. But the matter is not that simple. You may pick ten people at random out of a theater audience and ascer-

APPROXIMATE EFFECTS PER COMMON SHARE IF CORPORATE NORMAL AND SURTAX RATES ARE INCREASED FROM 40% TO 45%

INDUSTRIALS	*1942 Earnings Per Share ($)	Per Share Effect of Increase in Normal & Surtax from 40% to 45% ($)	Indicated Annual Dividend Rate ($)	Recent Price
Allied Chem. & Dye	11.05	0.73	6.00	152
American Can	4.23	0.36	3.00	85¾
American Tobacco	4.28	0.34	3.25	56¼
Anaconda Copper	4.66	0.41	2.00	25⅝
Bendix Aviation	5.26	0.42	3.00	34⅞
Bethlehem Steel	9.35	0.67	6.00	57⅞
Chrysler	5.79	0.63	3.00	79
Coca-Cola	5.66	0.44	3.50	112
Commercial Credit	3.86	0.36	3.00	38
Commercial Invest. Trust	4.23	0.32	3.00	40⅞
Dow Chemical	6.35	0.36	3.00	134
duPont	5.57	0.27	4.00	146
Eastman Kodak	9.82	0.55	6.00	159½
General Electric	2.15	0.09	1.40	36⅜
General Motors	4.10	0.27	2.00	51
International Harvester	4.95	0.37	2.00	67⅜
Johns-Manville	10.28	0.44	2.00	88
Kennecott Copper	4.69	0.21	2.75	31
National Dairy	1.18	0.21	1.00	19½
Penney, J. C.	6.58	0.36	5.00	94¾
Radio Corp	0.42	0.05	0.20	9⅝
Sears, Roebuck	5.87	0.43	4.00	92⅞
Standard Oil Co. (N. J.)	3.32	0.20	2.00	56⅝
Swift & Co.	2.87	0.14	1.50	26¾
Timken Roller Bearing	3.28	0.20	2.00	45½
Underwood Elliott Fisher	3.04	0.25	2.00	34
United Aircraft	7.45	0.30	3.00	30¼
U. S. Gypsum	4.27	0.26	2.00	73½
U. S. Rubber	1.82	0.40	1.00	43⅛
U. S. Steel	8.22	0.94	4.00	52¼
Westinghouse Elec. & Mfg.	7.00	0.39	4.00	94⅛

*Before contingencies.

RAILROADS				
Atch., Top. & Santa Fe	20.00	0.93	6.00	59
Atlantic Coast Line	22.0	0.67	3.50	28⅜
Chesapeake & Ohio	5.00	0.25	3.50	47½
Erie R.R. Co.	4.00	0.25	1.00	11⅜
Great Northern	9.00	0.52	2.00	26⅝
Louisville & Nashville	19.00	0.64	7.00	72⅛
Norfolk & Western	17.00	1.12	10.00	181½
Northern Pacific	9.00	0.79	1.00	14⅞
Pennsylvania R.R.	6.00	0.26	2.50	26¾
Southern Pacific	18.00	0.98	1.00	25½
Virginian Ry.	3.00	0.32	2.50	39⅜

PUBLIC UTILITIES Common Stocks:	Earned Per Share 12 Months to June 30, 1943 ($)	Per Share Effect of Increase In Normal & Surtax to 45% from 40% ($)	Indicated Annual Dividend $	Recent Price
American Tel. & Tel	†9.15	0.71	9.00	155⅜
Boston Edison	2.26	0.18	2.00	32
Consol. Edison	1.69	0.15	1.60	22⅛
Pacific Gas & Electric	2.26	0.24	2.00	28½

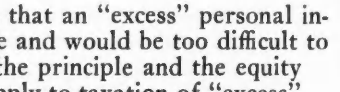
†12 months to May 31, 1943.
Source: Moody's Investors Service.

tain that they have an "average" income of, say, $7,000 a year, but the incomes that boil down to this average may vary in a ratio of 10 to 1 or more; and taxes are paid out of actual individual incomes, not "averages."

Now it is true that the greater part of the increase in this year's national income is in the hands of workers and farmers getting less than $3,000 a year and that many billions of it is the income of people getting less than $2,000 a year. But this is still to talk in "averages." Just as in the middle-classes, there are large numbers of individuals in the lower-income classes—even though they be a minority, it is a large minority—who today have little, if any, marginal or "excess" income after allowing for *present* far from light taxes and present sharply increased living costs. For instance, just to name a few groups, you will not find any real "inflation gap" among the many millions of retail clerks, the bottom levels of office help or the lower fringes of professional people and governmental employees. Yet a 10 per cent sales tax—or any increase in income tax—would fall with disproportionate and oppressive weight on these millions.

General tax increases of any importance are clearly "out" from here on, regardless of the "average" increase in incomes, because so many millions of people just don't have this "average" increase. If the *war-increased* incomes can't be tapped by *selective* tax increases, then we are at or very close to the limit of taxation.

The Treasury holds that an "excess" personal income tax is not feasible and would be too difficult to "administer," though the principle and the equity of it are the same as apply to taxation of "excess" corporate profits. It would seem simple enough to get the same result, at least in part, by imposing a general tax increase with large credits or exemptions for those who report incomes no greater than in pre-war 1939. If such returns can not be adequately policed by the Treasury, then neither can present returns. But you know the real answer: Politics. This form of tax would get a lot of real "inflation money" from war workers and farmers, and they are not only well organized but well and vocally represented at Washington.



Harris & Ewing

Senator Walter F. George, Democrat of Georgia, heading the Taxation Committee.

Like it or not, we are up against a condition rather than a theory; and we'll get nowhere right now by arguing whose fault this condition is. Any tax increase that the present Congress would dream of imposing would make but a negligible dent in the deficit; yet even a moderate increase—judged by "conservative" standards—would, if it hit any considerable numbers of unionized workers and farmers, be enough to send labor off on another determined rampage for higher wages, and farmers and the Congressional farm bloc off on more food price raids. Thus, a half-baked tax program would be more inflationary than deflationary.

So all we can do seems just to pray for an early end of the war, the changed "atmosphere" that it will bring, and a future productivity of industry—under wise Government regulation—great enough to make good the swollen Federal debt. After all, it will take but some $6,000,000,000 a year to service a $300,000,000,000 Federal debt—and we are getting used to big figures, as well as big production, in this country.

Taxpayers in the income groups that provide the bulk of the readers of this article must view the tax issue with mixed emotions. Having but limited information on military plans, they are reluctant to criticize the Administration's decisions; they know that every war involves much waste in expenditure which can not be avoided; and they know that no arbitrary limit can be placed on the monetary cost of victory.

On the other hand they know that New Deal philosophy from the start has aimed at a radical redistribution of the national income—using tax policy to level down from the top and using labor and farm policies to level up from the bottom. They have circumstantial reasons for believing, especially as they examine the Treasury's tax proposals, that an effort is being made to utilize the war-created opportunity to finish up this bloodless economic-social revolution for which the ultimate goals—actively fought for by the CIO wing of labor, and apparently in line with the Treasury's thinking—are an upper limit of $25,000 on incomes and a lower limit of $2,500. We have thus far gone much further toward the upper limit than the $2,500 "floor" envisaged for our lower income class.

Harris & Ewing

Rep. Robert L. Doughton, Chairman of the House Ways and Means Committee.

They also can not escape a belief that we are fighting this war on a needlessly profligate scale—not that we are producing too much but that we are paying extravagantly for it. Not only are hourly wage rates of war labor by far the highest in the world but—unique among belligerents—we pay (*Please turn to page* 101)

THE LATIN-AMERICAN BOOM

How Much Longer?

BY V. L. HOROTH

Gendreau

A flower seller in the Zocalo, Mexico City, Mexico.

THERE can be no doubt that the economic development of Latin America has been speeded up during the Second World War far more than ever before. In helping the Allies, great strides have been made in developing Latin America's natural resources, in the diversification of farm products, in the extension of transportation facilities, in the construction of public utilities, and above all in industrialization, for most of the Latin American countries have been thrown on their own resources in supplying their people with industrial products to an extent not known before. And they have been doing well at it.

Outwardly this process of the intensification of Latin American economic development has, in a number of countries, all the appearances of a boom. In most of the countries, people have more money to spend than they have had since the Great Depression. Wages have gone up and the prices of chief Latin American export staples are even higher than they were during the prosperous 'Twenties. Securities and real estate have been appreciating.

At the same time the debt structure of Latin American republics remains almost ridiculously low when compared with that of the belligerent countries, and equally low also are income taxes in those few republics that have adopted them. Although most of the foreign exchange controls have been removed, currencies have remained remarkably stable, and were it not for the export restrictions on the part of the belligerent countries, trade would be freer than during the immediate pre-war years, when a number of Latin American countries experimented with bilateral trade policies. Dollars, pounds and gold are accumulating in Central Banks. In general, the Latin Americans have become "trade and industry conscious," and intent on terminating the dependence of their idividual republics on foreign markets and on foreign capital and management; in fact, it looks as if economic nationalism is about to have its day in certain republics, such as Argentina.

The danger of economic nationalism in Latin America should not be dismissed lightly. Not all war-time influences have been constructive. Neither has there been a well-balanced development of Latin American economies during the war. Unquestionably in many cases the output of strategic materials has been over-stimulated and the expansion of certain industries has been over-done.

Some of the newly introduced industries will emerge as high cost producers, despite low wage rates. In the first place, they will be limited in size, since the markets they will serve are generally small. Secondly, most of the Latin American countries are short of power fuels and will have to continue to import oil and coal as well as such semi-manufactures as steel. There will undoubtedly be a temptation to protect the new industries, either because of political pressure at home, or for reasons of national security —to avoid being caught by the scarcity of industrial goods, as is happening at present.

In other words, it is not at all unlikely that many of the Latin American republics will go through a "protectionist" period, at a time when the general tendency in the more industrialized countries may be away from it. If the protectionist policies are pushed too far, there is a possibility that some of the benefits of wartime progress in industrialization and diversification may be lost, since the high priced domes-

STATUS OF LATIN AMERICAN DOLLAR BONDS, DEC. 31, 1941

	Total $Bonds Held in U.S.	Not-Defaulted		In Default	
		Terms Unchgd.	Terms Adjust.	Partial	Complete
Brazil	228	2	....	....	226
Argentina	182	126	50	....	6
Chile	179	23	20	....	136
Colombia	123	12	13	....	98
Cuba	57	9	48	....	....
Peru	54	....	....	....	54
Bolivia	54	....	....	....	54
Uruguay	33	....	31	....	2
Panama	13	4	1	....	8
Dominican Rep.	7	7	....	....	....
Haiti	6	6	....	....	....
Costa Rica	6	....	....	5	1
Salvador	4	....	....	....	4
Guatemala	2½	....	1	1	½
Total	948	188	166	7	587

Source: National Industrial Conference Board

tic product may be out of reach of the local customer who might have bought the lower priced import.

Two of the Latin American countries, Chile and Mexico, have already had some such experience. For several years prior to the outbreak of the war, the Mexican industrial activity lingered, because the prices of domestic industrial products were too high for the Mexican farmer and the miner. Only when our war orders stimulated the primary output and brought about better prices for Mexican raw materials and foodstuffs, did Mexican industries increase their sales at home.

Two developments have in particular been favorable to the promotional activity in Latin America: the lack of competition, and the fact that the expansion of purchasing power has been faster than the expansion of available goods.

As imported goods have gradually disappeared from the market, the domestic manufacturer has been freed of outside competition. He has been doing landslide business, though his prices have in some cases been four, five times as high as those of the competing imported product would have been. In fact, since it is impossible to obtain industrial equipment from abroad to set up new enterprises, the existing enterprises in a number of lines have achieved a practical monopoly of the market in their respective countries.

Though as a rule Latin American industrial enterprises have been turning out more products than ever before, the overall supply of goods—because of the sharp falling off of the imports—has failed to keep up with the expanding purchasing power. Moreover, in a number of countries the situation seems to have been reached where the possibilities of further industrial expansion have become exhausted—unless imports of machinery can be increased. And since the purchasing power continues to expand, the competition for the available goods, the volume of which is more or less stationary, has brought about an accelerated rise of prices and wages. The accompanying table illustrates for the reader the advance that has taken place in the Latin American cost of living indexes since 1939 and 1929.

The favorable trade balance, in conjunction with the substantial American military expenditures, loans and investments, has been the most important factor in the building of Latin America's purchasing power. In 1941, the export surplus of 20 Latin American republics was around $300 millions. It rose to about $700 million in 1942, and in view of the improvment in the shipping situation, there is a likelihood that the favorable trade balance will be large again this and next year. The Government's use of credit (in Argentina, the Government borrowed from banks to buy up crops that could not be exported) and the inflow of refugee funds, together with the return of Latin American funds from abroad, have likewise added to the funds in the hands of the public. From the Fall of 1940 up to the middle of this year, Mexico alone is estimated to have received some $100 million in foreign funds. A large influx of funds into Argentina, Brazil, and Uruguay has also been reported.

Since the inability to obtain capital goods from abroad has limited investment opportunities, the

LATIN AMERICA—COST OF LIVING

	1929=100		1939=100		
	1929	1939	1939	Latest 1943	In terms of 1929
Argentina	100	93	100	119	111
Bolivia (1931=100)	....	(a)	100	311	1,611
Brazil	100	152	100	128(b)	195
Chile	100	171	100	184	315
Colombia (1937=100)	....	118	100	114	....
Costa Rica (1936=100)	....	108	100	167	....
Cuba	....	....	100	152	....
Mexico	100	155	100	166	257
Peru	100	96	100	143	137
Uruguay	100	103	100	114	117
Venezuela (1933=100)	....	101	100	110	....

(a) 790 in 1940, based on 1931
(b) middle of 1942

GOLD AND FOREIGN EXCHANGE HOLDINGS OF LATIN AMERICAN COUNTRIES

(all figures in millions of nat. currency)

	Dec. 1941		Latest Figures	
	Gold	For. Exch.	Gold	For. Exch.
Argentina	1,075	467	1,075	1,732
Bolivia	377	377	554	375
Brazil	345	894	3,006	3,376
Chile	148	47	230	84
Colombia	28	11	76	75
Ecuador	72	18	137	34
Haiti	9	14	20	20
Mexico	56	31	149	360(e)
Peru	39	23	39	81
Salvador	17	5	24	28
Uruguay	152	3	136	9
Venezuela	124	41	246	38

(e) estimated

surplus funds have stimulated speculation, aggravating thereby the danger of inflation. This has been especially true in Mexico, where a flight from currency into commodities, stocks and real estate has taken place.

Using commercial and savings bank deposits, together with the currency outstanding, as a rough measurement of the expansion of Latin American purchasing power, it appears that the combined total of the three rose about 60 per cent from about $3¼ billion at the end of 1940 to over $5 billion as of the middle of this year. The accumulation of gold and foreign exchange, which gives some idea as to how much of the purchasing power could be used in payment for the imports, reached by the middle of 1943, according to the recent Monthly Letter of the National City Bank, the equivalent of almost $1,900 million. This represents an increase of about $600 million since the end of 1942.

There are miles of such mosaic pavements in Rio De Janeiro, Brazil. They were laid by Portuguese workers especially brought over for the purpose.

As the reader will see from the accompanying table, in Argentina the foreign exchange holdings increased about $370 between the end of 1941 and September 1943, while in Brazil the Government's gold reserve and Banco do Brazil's net foreign exchange assets rose in the same period about $270 millions. The wartime expansion of Latin American reserves is not unlike the growth of our own gold reserves during the First World War, which increased from about $1,290 million (old dollars) at the end of 1913 to about $2,500 million at the end of 1919.

What may be significant for the potential enterpreneur or investor in Latin American is that the wartime gain in purchasing power has not been distributed evenly. The mining and industrial areas have profited by far the most. The agricultural districts have benefited only where new products, replacing those lost in Southeastern Asia, have been introduced, or where, as in Mexico, Bolivia and Chile, the internal market for farm products has substantially expanded because of the increased demand on the part of industrial and mining areas. For the most part, farm areas which were dependent upon the exports of bulky products (bananas) or the exports to European markets, as were certain parts of Argentina, Uruguay, Brazil and Chile, have remained depressed. In Argentina, for example, the purchasing power of the colono farmer raising wheat or corn, is probably less than half in terms of industrial products of what it was before the war.

As a whole, it is indisputable that considerable progress has been made, that Latin American economies have been broadened and strengthened by wartime developments, and that opportunities for investments are perhaps as favorable as ever. Currency instability and chronic shortage of capital may well be things of the past. But there are new hurdles to be jumped. As Latin American countries advance along the course of economic progress, they will be faced by a host of new problems, industrial and social. A preview of these problems we saw already before the war in Chilean and Mexican labor disputes. Larger enterprises in Mexico fear that overstaffing of factories and wage guarantees will lead to serious difficulties when the present boom period is over.

The type of natural resources favors the development of Latin America into a great producer of industrial consumption goods. Argentina and Brazil have all the natural resources as well as labor necessary for their becoming the leading world producers of shoes and other leather goods, while textile industries in Brazil, Mexico, Colombia and Central America could probably be developed to hold their own in world competition.

Brazil and other countries may well become leaders in plastic products manufacturing. But whether the industrial development remains confined to supplying domestic markets or whether it expands to foreign markets, it will have to be accompanied by the development of transportation facilities and motive power resources. To tie together various producing areas of individual Latin American countries is likely to be slow and expensive. So will be the development of oil fields which, in Argentina, for example, are far from the centers of production—and of water power resources, which are considerable.

Latin Americans are quite aware of the dangers which uncontrolled boom and price inflation could work in disrupting their economies. They have been setting up price controls, and their central banks are attempting to mop up the excess purchasing power in quite a number of ways. But in general the application of various controls remains rather difficult, because of the relatively simple economic structures of Latin American republics (*Please turn to page* 101)

Higher living costs and increased taxes are severely squeezing recipients of fixed income

How To Increase Your Investment Income

BY J. S. WILLIAMS

PEOPLE wholly dependent on income from securities face hardships. It costs more to live; income taxes are increasingly burdensome; and it takes more capital to produce the same amount of income. The living standards of those who subsist from interest and dividends are more than threatened; already the standard has declined. People who have been used to more are becoming accustomed to less. There is a limit, however, to personal economies; and everyone is reluctant to "take a cut" without trying to do something about it.

Just to give an idea of the problem (most people who live on investments won't have to be told this), savings banks are paying 1% to 2% against 3½% to 4½% after World War I. Government bonds yield 2% against 4¼% in the first World War, good corporation bonds which formerly were not "cheap" at 4½% now return only 2¾% to 3¼%, industrial preferreds originally issued to yield 6% or 7% have been avidly bought by institutions to return only 3¼% to 4½%, and the Moody index of common stock yields lately has been around 4.6% against 7.8% early in 1942. As everyone knows, the type of common stock that very conservative investors like to own recently have been yielding more nearly 3½% or 4%. Some "growth" issues yield around 2%.

LOW YIELD ISSUES

BONDS	Recent Price	Callable At	Current Yield	Yield to Maturity
American Telephone 3¼/61	109	105	2.99%	2.62%
American Tobacco 3/62	103½	103	2.89	2.75
Atchison 4/95	119½	N.C.	3.34	3.22
Standard Oil of N. J. 2¾/53	105	102½	2.61	2.20
Consolidated Edison 3½/56	108	102	3.00	2.70
Detroit Edison 3/70	106	110	2.79	2.65

PREFERRED STOCKS	Recent Price	Callable At	1937 High	Approx. Yield
American Can pfd. ($7)	178	N.C.	174	3.93%
Corn Products Refining pfd. ($7)	177	N.C.	171½	3.94
General Motors pfd. ($5)	129½	120	122⅝	3.86
National Biscuit pfd. ($7)	176	N.C.	167	3.98
National Lead pfd. ($7)	172	N.C.	171	4.07

COMMON STOCKS	Recent Price	Dividend Rate	Earned Per Share 1942	Approx. Yield
Atlantic Refining	25	$0.60	$2.33(a)	2.40%
Dow Chemical	134	3.00	6.35	2.23
Dupont	146	4.00	5.07	2.74
Humble Oil	80	2.00	3.25	2.50
Minneapolis-Honeywell	70	2.00	4.29	2.85
Monsanto Chemical	82	2.00	3.75	2.43
Pan American Airways	31	1.00	1.95	3.19
Johns-Manville	88	2.00	6.35	2.27

(a) Including non-recurrent income.

There is an elementary principle of investment science which proclaims that the yield is directly proportional to risk. This "principle" is one of those generalizations which unquestionably is true in the abstract and applicable most of the time to the greater number of securities; but, as many experienced investors know to their sorrow, there are times when low yields have involved a higher degree of risk than high returns. Sometimes a very low yield, especially in common stocks, merely represents an overestimate of merit and an underestimate of unfavorable elements.

Broadly speaking, however, anyone who sells out a low-yield portfolio and buys higher yielding securities with the proceeds will sacrifice a certain degree of security as well as quality. In the securities markets, as at the department store, you usually get about what you pay for. If a security yields more, it usually has a bigger risk element in it.

If a shopper is to get more than his money's worth at the department store, he must be a keen student of values and keep alert. If an investor sells dear and buys cheap, it usually is because he is well informed and able to move resolutely against mass psychology. It is because he has the courage of his convictions—and, equally important, because his convictions are well-founded.

The executive in charge of the buying department of one of the largest life insurance companies in the world recently remarked that the bond market at present is about where the stock market was in 1929. He meant that, in his opinion, the best bonds are very high, and probably will decline in the long run. His idea of obtaining a better yield (an idea which his company is not able to follow in all cases) is to sell highest grade utility and industrial bonds, now quoted at substantial premiums over

the call price and offering a return of 3¼% or less to maturity, and buy the first mortgage bonds of reorganizing or recently reorganized railroads. Such bonds, it is contended, are being issued on the basis of well conceived safeguards and ought to be good under almost any set of conditions. Yet they sell to afford a most generous return because they lack seasoning, because they can't be bought by many types of institution, and because of the undeservedly ill-repute of both the railroad industry and specific railroads.

An investment counsel employed by one of the larger investment trusts, an original thinker held in high esteem among analysts, recently said that he thought almost all so-called "growth stocks" are overvalued. He lacked sympathy for the type of investment thinking which advises the purchase of growth stocks to yield 2%, 3% and 3½% with the idea that capital enhancement will compensate for the low return. If he were to recommend "growth" stocks, he said, he would pick out issues where there is less popular awareness of growth possibilities. After everyone knows, for instance, about the great growth possibilities in plastics, light metals, chemicals and the like, there is less probability that shares representing these industries are cheap. In any event, the growth probably has been discounted and anticipated years in advance. Furthermore, there may be some "wrong guessing" not to mention some overenthusiasm. There is danger here of sacrificing yield for a mess of pottage.

What Is Conservative?

A good many investors of late have been thinking of themselves as "conservative" when they have been buying bonds bearing a 3% to 3½% coupon rate at above a call price of 105 to 110. Bonds of this type, speaking broadly, cannot possibly yield much more than 3% before taxes. If they are called, the yield may be measurably less. If the bond market goes down, as it probably will sometime in the next decade, the investment, should it have to be sold, will have to be liquidated at a loss. Such issues, unless they are Governments or tax-exempt municipals, are in effect selling at or near "ceiling" prices, and much more effective ones than the commodity price ceilings now enforced by the OPA. Three per cent and no more can mean 3% and much less.

The same sort of a situation exists in some industrial and utility preferred stocks, both callable and non-callable. There is not much, if any, criticism of the "safety" factor in the dividend paid on some of the quality non-callable $7 preferred stocks of major corporations now selling at 150 to 175 a share, but pricewise such senior equities have lots more room to go down than to advance. Actually, these stocks sell at the high levels quoted partly because a certain type of investment company and insurance company find them peculiarly fitted to their legal needs. For the individual investor, even in the medium tax brackets, (*Continued on page 95*)

HIGHER YIELD ISSUES

RAILROAD BONDS	Recent Price	Times Charges Earned in 1942	Nature of Lien	Approx. Current Yield
Atlantic Coast Line col. 4/52	79½	12.17	LN Collat.	5.79%
Chicago Great West 4/88	76	11.30	1st Mtge.	5.25
Erie R. R. income 4½/2015	61	3.52	Income	7.37
N. Y., Lackawanna & West. 4/73	65	2.74(b)	1st Mtge.	6.15
New England R. R. 4s or 5s	83	5.46(c)	(a)	4.81
Northern Pacific 6/2047	79	2.11	Junior	7.97

(a) To receive dollar for dollar in new New Haven 1st mortgage bonds.
(b) Delaware, Lackawanna & Western.
(c) Estimated on new New Haven 1st mortgage bonds.

OTHER BONDS	Recent Price	Callable at	Times Charges Earned in 1942	Approx. Current Yield
International Paper 6/55	106	105	4.21	6.40%
International Telephone 5/55	84	107½	1.68	5.95
Western Union 5/51	100	105	3.38(a)	5.00
Cities Service 5/50	97	103	2.40	5.60

(a) Before Postal merger.

PREFERRED STOCKS	Recent Price	Earned Per Share 1942	Paid Div. Each Year Since	Approx. Current Yield
Amer. Sugar Refining $7 pfd (e)	111	$8.41	1890	6.30%
Amer. Rolling Mill $4.50 pfd (b)	66	17.29	1936(c)	6.81
Columbia Gas & Elec. $6 pfd (b)	75	8.96	1927	8.00
Gaylord Container $2.75 pfd	52	11.30	1937	5.28
Intl. Paper $5 pfd (b)	65	8.44	1940	7.69
U. S. Rubber $8 pfd (b, d, e)	125	12.87(f)	1938	6.40
U. S. Steel $7 pfd (c, e)	122	19.93	1901(c)	5.73

(b) Has broken dividend record.
(c) Has paid dividends every year, but sometimes less than regular rate.
(d) Non-cumulative.
(e) Non-callable.
(f) After war write-offs abroad.

COMMON STOCKS	Ind. Div.	Recent Price	Est. 1943 Net	Has Paid Divs. Since	Ind. Current Yield
AmericanChain & Cable	$2.00	23	$3.50	1936	8.56%
American Telephone	9.00	155	9.00	1881	5.80
Atchison	6.00	60	20.00	1940	10.00
Beneficial Indust. Loan	1.20	17	1.80	1929	7.05
Bond Stores	2.00	31	3.00	1937	6.45
Chesapeake & Ohio	3.00(c)	47	4.10(e)	1922	6.38
Columbia Broadcasting	1.50(a)	22	2.50	1931	6.81
Commercial Credit	3.00	38½	3.00	1934	7.79
Commercial Invest. Trust	3.00	41	3.10	1924	7.31
Consolidated Edison	1.60	26	1.80	1885	6.15
General Cigar	2.25(a)	28	2.50	1909	8.03
Household Finance	4.00	55	4.50	1919	7.27
Houston Lighting	3.60	63	5.25	(d)	5.55
Idaho Power	1.60	26	2.00	(d)	6.15
Iron Fireman	1.20	18	1.45	1934	6.66
Pennsylvania R. R.	2.50(a)	27	6.60	1848	9.25
Pepperell Manufacturing	10.00(a)	119	20.19(f)	1852	8.40
Pullman	3.00(a)	34	2.75	1867	8.82
Swift & Co.	1.50(b)	27	2.25	1934	5.55
Swift International	2.00	31	3.00	1919	6.45

(a) Paid in 1942.
(b) With extra.
(c) Assumed rate after payment of $10 dividend in preferred stock.
(d) Not available.
(e) Before stock dividend, or about $3.75 after stock dividend.
(f) Actual, including EPT credit, for year ended June 30.

Happening in Washington

BY E. K. T.

LEND-LEASE PROBE urged by Senator A. J. Ellender of Louisiana, will be stifled either on vote or by appointment of investigators in sympathy with the present international arrangement. The White House will use its influence to keep the inquisitorial floodlights away from documents covering more than fifteen billion dollars worth of shipments to friendly nations. Ellender's target is Great Britain. China and Russia, he opines, should be allowed to write off the bill.

Washington Sees:

Wendell L. Willkie is back in the driver's seat and none know it better than members of Congress who have been showered with mail since the 1940 Presidential nominee made what most observers believe was his White House bid, in his St. Louis speech.

The anomalous spectacle of a man who never has held office within the Republican party functioning as the party's policy framer would be strange if it involved someone other than the unorthodox Willkie. But the transplanted Indianan still has considerable popular appeal and when he discusses world relations he speaks with the voice of one who learned his subject first hand. His basic theories clash with those nurtured by many republicans in Congress, but they are holding their tongues because of the possibility that they may find themselves running, in 1944, on a ticket headed by Willkie. There is little to distinguish the Roosevelt war and foreign policies from those expounded by Willkie, and the President's strength today most certainly rests upon those bases. Whether a candidate offering an entirely different set would be a serious contender is doubtful.

The St. Louis speech was arranged to put Willkie on the spot. Actually it resulted in a boost in his political stock.

WOMEN WORKERS are being kept out of the labor market by reason of public housing authority regulations which fix a ceiling on allowable incomes of tenants. At Queensbridge, in Long Island City, a canvas showed 2,000 prospective women war workers whose family incomes would be raised above the arbitrary ceiling if they accepted jobs. They elected to remain at home. The rules will be amended "for the duration."

CONSUMER SUBSIDIES appear to have fallen victim to the Congressional summer recess. Reversing itself, the House Banking and Currency Committee has ordered liquidation of the current program at the fiscal year's end. Extracting money from the individual with one hand and giving him money to pay his grocery bill with the other just didn't ring true with "the folks back home."

BOND REDEMPTIONS are soaring to new heights as a result of payroll tax deductions which have cut the "take home income" of millions. Concurrently, sales of "E" Treasury Bonds to individual purchasers are on the downgrade. After the first impact has worn off and the period of readjustment to reduced pay envelopes has been passed, the Treasury believes normalcy will be restored to its securities market.

INCOME AND OUTGO are being brought closer into line as the war moves on and the country takes a more realistic view of the need to pay increasingly as it goes. In the months of June, July and August, the United States spent $20,500,000,000 on war and collected about one half that amount—$10,100,000,000. In the corresponding months of last year, the outgo was $14,600,000,000, and the income about one-fourth of that amount—$3,800,000,000.

AS WE GO TO PRESS

Italy's declaration of war against her former Axis partner, Germany, was the dramatic highpoint of a month of unprecedented military success for the Allies, but it lacked almost everything else.

War chiefs are finding, expect to continue to find, it as difficult to overrun Italy under a partnership as it would be if she remained a belligerent. Germany is exacting a heavy price for land.

In Russia, the Mediteranean, and in the Pacific the United Nations are gaining ground. In Washington, the cause is losing. The Senatorial quintet that covered 30,000 miles in 50 days and presumed to report in detail on the military, diplomatic and economic situation the world over, has jammed the gears of smooth operation.

Youthful Senator Henry Cabot Lodge seemed bent upon emulating his Senatorial grandfather who led the former Congressional fight against remaking the world on the basis of the Versailles Treaty. His was the most discordant note in the report made by the touring Senators — a report in which there was little unison.

Basic fault in the controversy appears to be grounded on the fact that the Senators failed to check their information with the State Department, the White House, and the military. Their bland assertions that no negotiations have been made for American post-war use of foreign airfields will trip them up in the final accounting.

President Roosevelt's assertion that Russia will not be asked to supply air bases overlooking Japanese territory will be the last military pronouncement on that point. That such action would violate Russia's nonaggression pact with Japan is the stated reason. More compelling is the fact that United States air experts say the Allies couldn't hold the remote bases for 30 days against the assured Japanese drive.

Tenseness between Washington and London is growing out of the Senatorial incident. Winston Churchill has publicly praised England's willingness to put aside personal bickering to get along with the war, cited the contrary policy of official Washington. A vocal block in Washington thinks, aloud, Churchill has enough to do with his Empire without attempting to dictate Washington policy.

Military authorities, reviewing global successes in recent weeks, still say the war will be long. No recent victory is enough to end the Axis capacity to continue resistance. Actually, enforced shortening of lines, might have the opposite effect, but only temporarily.

First indication of growing unrest on the German home front came when Gestapo chief, Heinrich Himmler was given the additional portfolio of Minister of Interior, displacing the last vestige of persusasive appeal by force and the threat of prison bars. Himmler, OWI believes, has supported the inference that things are bad on the home front by warning of empty larders this winter if harvests aren't brought in. The spectre of further depletion of an already thin diet is a "last resort" technic. If it fails, Germany fails.

Happy contrast is the 1943 crop forecast for the United States. Off to a bad start, farms will yield more food than last year's bumper harvest, slight reduction in gains being more than offset by increase in livestock, Department of Agriculture promises.

Phenomenon on the civilian side of the war continues to be the performance of American railroads, carrying more with less than ever before, yet yielding nothing under the strain. The roads entered the war with 10,000 fewer locomotives and 500,000 fewer freight cars than they had at the start of World War 1.

Much of the equipment is near the breaking point but the trouble ahead is human rather than material breakdown. The rail wage program is unsettled; Stabilizer Fred M. Vinson is not in the mood to approve increases, but the employees say the alternative is strike. And the deadline is nearing.

The population of the huge Pentagon Building, business office of the War Department, is still growing but attention is being turned to post-war uses of the structure which, with 35,000 persons seated at desks, is not even slightly crowded. Best guess is conversion to military hospital use, but one Washington scribe suggests it be locked, abandoned, and a sign placed over it: "Washington slept here."

By-product of Republican opposition to sales tax, voiced by Rep. Harold Knutson, ranking tax committee member, is the winning of friends in the ranks of labor. CIO, particularly, is gunning against this type of revenue raising.

Sufficient gasoline to meet the East's current allotment of 379,000 barrels a day, but sharp curtailment next year is the prospect. That assumes foreign sources of military supply do not prove more productive in the future than they have been to now.

Dimming the transportation picture is the certainty that next year's gasoline will be of poorer quality, with less performance and mileage per gallon, says the Petroleum Administrator for War.

Newspapers will be thinner in weight and content next year. Now operating with about 15 per cent less paper than before the war, the press faces further curtailment and the necessity of re-using old sheets, spreading them further.

England is using about half the amount of newsprint consumed in peacetime and publishers on the whole are faring better economically than ever before. Paper costs are less, advertising rates have been boosted, "returns" have been stopped, features have been reduced in numbers, reporters required to tailor the length of their yarns.

Treasury Secretary Morgenthau's defense of the suggested $10,500,000,000 tax bill fell on deaf Congressional ears. The Ways and Means Committee will halve it or drop it. Growing belief on Capitol Hill is that taxation isn't the right weapon to fight inflation. The Treasury's bill was regarded aimed at inflation rather than at revenue raising.

War Labor Board's incentive pay plan for aircraft—five per cent boost in wages when production increased ten per cent—is setting a standard by which a majority of 800 incentive pay boost applications now pending will be denied. Most of the requests were found artful ways to get around the stabilization rules.

Factors which will be weighed are whether there is a definite increase in production involved, whether it would mean an increase in unit labor costs, and whether production standards are haphazard or developed from detailed time studies.

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PREPARING INDUSTRY FOR PEACE

An Overall Picture of Developing Trends

By E. A. KRAUSS

ALL roads on the business horizon today lead directly to the post-war problem. Each new success abroad is a reminder of the need for forward planning at home, for coming actually to grips with the question of what to do when war orders stop. It has given rise to a great debate, now in full swing. Behind such technical terms as renegotiation and reconversion, the opposing lines of the biggest post-war issue are being formed. This issue, of course, is private enterprise and its future status; the debate is shifting rapidly from theoretical pros and cons to the practical dollars and cents questions of who is going to own what.

Industry is a long way from agreement as to what should be done about paying the cost of reconversion, and Government opinion is equally divided. The reasons are obvious if we examine the complexities involved. In their broadest outline, elements which will determine to a large extent the post-war functions of private business are related to the wartime integration of industry, the nature and size of the reconversion task, eventual evolution of Government-guaranteed production loans, renegotiation and termination of war contracts and the eventual disposition of Government plants.

This is a formidable array of problems, each one presenting a multitude of difficulties. Besides, speed is of the essence. Once war orders cease, almost any kind of a workable procedure would seem to be well worthwhile compared to the cost of widespread unemployment, the inevitable penalty for confusion and delay. No wonder, then, that the tides of debate are running high. Industry, on the one hand, is fighting tenaciously for what it believes it must have if free enterprise is to survive and cope successfully with the problems of peace. Government, conscious of its political and economic responsibilities, is equally determined to proceed along lines it thinks best, to formulate policies which it feels will best assure the welfare of all. In a larger sense, the goal of both is the same, or should be; the great controversy rages over ways and means to achieve it.

By now, preliminaries can be said to be over; the debate has reached the down-to-earth stage from which final and practical measures are expected to evolve. Necessarily, they will deal first with the more immediate problems, centering on questions surrounding renegotiation and reconversion, contract termination and their numerous collateral problems. Basic to all are financial considerations, to assure business and industry of sufficient funds to take care of contingencies during the transitional period.

This raises two questions instantly. What are the contingencies and how can a business build up reconversion reserves under present tax laws and the various price and contract limitations? The latter, in industry's opinion, is simple to answer. It contends that it cannot be done as long as tax laws and renegotiation procedure fail to recognize the need for accumulation of adequate post-war reserves. But it is prone to overlook the interrelation of the two, the fact that contingencies will vary widely with individual industries and companies and that there-

fore a general concept as to what should constitute adequate reserves is difficult to formulate. It is here where Government and industry differ most. Let's see what has been done so far to resolve these differences.

Renegotiation is clearly at the crossroads. The House Ways and Means Committee has wound up its much-publicized hearings on the subject and found itself just about where it started—in a quandary. Most of its members appear to dislike renegotiation in principle but cannot agree on a substitute; on the other hand they are unwilling to abolish profit control entirely. The crux is that the hearings have not produced a workable formula for determining excessive profits, with both contestants apparently shying away from flat profit limitation. Industry's cherished objective, outright repeal of renegotiation, naturally is politically unthinkable and hence beyond realization. Presumably, it never was more than a maximum demand, held out for bargaining purposes. On the whole, however, the House Committee appears impressed by industry's arguments over the need for post-war reserves but has been unable to counter effectively the Government's contention that their allowance would have to be based largely on guesswork. The controversy leaves the Committee unhappily in the middle and prospects are that it will struggle for a compromise of some sort. Possibilities range all the way from the liberal proposal of the Truman committee advocating a 20% post-war nest egg to the restrictive implications of the recent report of the House Naval Affairs Committee which strongly upheld existing renegotiation procedure and suggested only minor revisions including the promise of judicial reviews of contested decisions.

Stalemate in Congress

With the matter thus stalemated in Congress, the Treasury Department has recently taken a hand in an attempt to provide a workable solution. Its views were contained in the recent tax program submitted to Congress which includes provisions enabling industry to finance a large part of its post-war readjustment costs out of high war-time earnings through the exercise of various carry-back privileges. The entire issue is thus again placed squarely before the House Committee but tackled from a vastly different viewpoint. The latter, the Treasury contends, would be preferable to any form of reconversion reserves because of the difficulty of estimating post-war financing requirements.

According to the Treasury program, post-war expenses eligible for this form of special treatment under a carry-back arrangement would include dismissal wages, reconversion costs, deferred maintenance costs, costs incurred under contract cancellation, inventory losses and, under certain circumstances, obsolescence of productive facilities. While in their tentative form, these proposals appear fairly liberal, embracing virtually the entire range of reconversion expenditures, they also point up one thing. That is that the Government has no intention whatsoever to support solutions of a general nature, necessarily discriminatory in effect and affording wide leeway for many companies, according to their individual situations. Instead, Government "wants to be shown." Any concessions it is willing to make must conform to actual and proven needs.

Realistic Government Policy

In short, it is opposed to windfalls of any kind and intends to be hard-boiled and realistic in dealing with the entire problem. As to the need for post-war reserves, Government contention is that industry as a whole is quite well heeled financially and most companies well able to defray reconversion costs. In the light of this view, the aforementioned Treasury proposals are surprisingly far-reaching. Any conclusions as to their liberality, or otherwise, must however await evolvement of details of actual application. Congress, it must be said, is taking a favorable view and chances are that the Treasury ideas will be given serious consideration regardless of the fate of the remainder of the ill-starred tax program. It sees merit in the basic philosophy that deduction of post-war costs from war-time earnings should await the time in which these costs are actually incurred and definitely known. On the other hand, industry's reaction has been largely non-committal; faint praise intermingled with expressions of doubt are thus far the only indications of hope that something really worthwhile *may* come out of it.

While the debate on renegotiation and reconversion is of fairly long standing, contract termination and its related problems have come to the fore relatively recently. It is now holding the spotlight and already has produced serious rifts among various Government agencies. That termination of war contracts is an immediate and sometimes crucial problem rather than a post-war question to be tackled leisurely when peace is here, is a realization spreading quickly not only among industry but even Congress and the various procurement agencies involved. It may, however, not be generally realized in public that some 8,500 war contracts have already been wholly or partially cancelled, involving an amount in excess of $6 billon. These cancellations to date have led to widespread complaints about the slowness, difficulty and uncertainty of cancellation procedure. Yet the current problem is small compared to what it will be after the war. Then, mass cancellations may run up to $75 billion and must be dealt with in a hurry since many contractors will be unable to start peace-time production until their claims are settled. The alternative would be widespread unemployment.

So far, a definite policy is lacking. Cancellations have been handled entirely by the War Department, Navy Department, Maritime Commission and other procurement agencies. More recently, the General Accounting Office spoke up sharply, insisting that it have a final say on termination settlements. In the end, of course, Congress itself must set a policy and

it is vital that this be done speedily. The staggering size of the termination job is readily apparent from the fact that the War Dept. alone has more than $75 billion in contracts outstanding among more than 100,000 important prime contractors and at least a million important sub-contractors.

Industry and a large portion of Congress favor a liberal policy but many in the executive departments want strict regulations to protect the Treasury against fraud and carelessness. Others in Government seek to tie up the mechanics of contract termination with social, labor and economic questions. Several bills are pending in Congress to lay down termination procedure but it probably will be some time until there is final agreement. Meanwhile contracting agencies are working out their own systems, with the Army apparently farthest along but its authority is now being challenged. Army policy

Cars coming off the Plymouth assembly lines at the rate of three a minute. This was before January 31, 1942, at noon when the last Plymouth was completed in this factory

is prompt and liberal with settlements subject to later review. The theory is that losses through possible over-payments will be small and more than balanced by gain from quick settlements. This procedure is hotly contested by the General Accounting Office, alleging too liberal an attitude by Army field officers to the detriment of Government. Just what the outcome of this controversy will be is problematical.

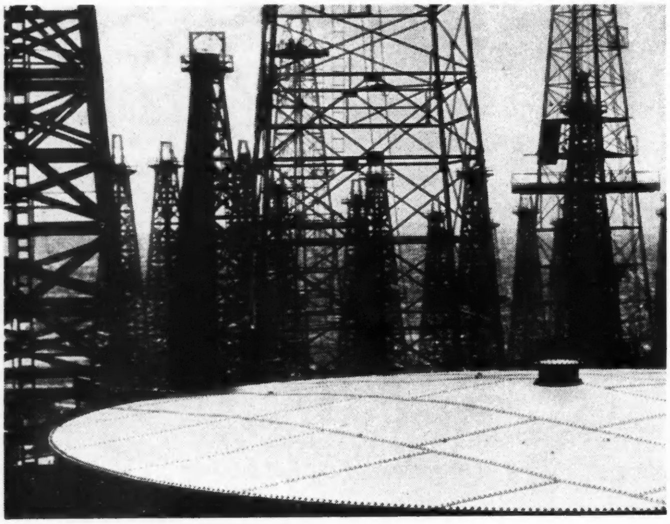
With termination settlements confined to prime contractors, the sub-contractor is in a difficult position. Having frequently tied up all or most of his capital in war work, he needs cash quickly when contracts are terminated. To meet this need, several proposals are pending. The Army wants authority to pay up to 90% of the amount due as soon as an estimate is made. The General Accounting Office is more hard-boiled and wants to restrict financial aid to concerns which can definitely prove the need for help as well as ability to repay. Congress is willing to go farthest. A bill, drawn up by the Senate Small Business Committee, provides for *mandatory* payment within 30 days after filing of the claim, of 75% of the amount certified by a contractor as owing on a cancelled contract. Congress thereby has come to grips with the problem; we are bound to hear much more of it before a final decison is reached. It obviously favors speed and its basic philosophy appears to be that the social and economic loss to the nation through delayed settlements would be far greater than any minor loss to the Treasury which might possibly be prevented by punctilious audits.

One feature pertaining to contract termination is however definitely determined. That is maintenance of liquidity of working capital by means of so-called VT loans, an evolution of the former V-type loans to provide working capital for financing of war production. This extension of V loan privileges applying to both prime and sub-contractors is an important step towards allaying fears of impairment of working capital due to termination; it most likely will reduce pressure in Congress to force lump-sum payments of termination claims prior to audit or negotiation of claims. So far it proved one of the most constructive moves, as it would permit a concern to borrow immediately a substantial portion (up to 90%) of its inventory value, enabling it to resume peace-time manufacture at once.

It should particularly benefit small business but its importance transcends the obvious. By taking the doubt out of working capital postions, it virtually guarantees successful reconversion by the bulk of industry since working capital positions generally are in excellent shape and company resources, once liquidity of working capital is assured, in most cases are quite adequate to defray readjustment costs. Despite heavy taxes and renegotiation, many companies today are stronger than before the war and even now, business as a whole may be reaching the point where requirements for reconversion and post-war expansion can be met with a minimum of reliance on bank loans and other external borrowing. This was specifically pointed out in a recent statement of the Federal Reserve Board, commenting on the growing amount of demand deposits by all types of companies. In a sense, the Board said, business has become the residual holder of much of the increased money supply generated by war-time deficit financing. A glance at present-day balance sheets tends to confirm this view. Cash positions of a good many companies are exceptionally strong and further bolstered by sizable holdings of Government securities, a relatively rare pre-war feature.

On the whole, progress is made on many sectors towards preparing industry for peace but the multitude of problems involved tends to stress the vital need for early evolvement of a uniform policy. In the renegotiation field, this has led, only very recently, to the creation of a joint price adjustment board with broad powers to formulate a formal procedure in place of the informal policies heretofore followed by the (*Please turn to page* 93)

Low-Priced Oils Compared



A Prolific Oil Field

Facts About Varying Earnings Production and Prospects

BY STANLEY DEVLIN

PROBABLY no industry has a more certain outlook for continued activity than the petroleum business. Demand for oil products is at record-breaking proportions and there is a definite indication that it will continue so after the war ends. Civilian consumption of gasoline and lubricants has been on a restricted scale in order to meet the war needs, and the same applies to fuel oil. When the war machines are through with their work, the domestic needs will again be filled in full and this demand should fully take the place of the war uses. Very little conversion delay will take place in the refineries, while the producing and distributing part of the business has no conversion problem.

The lower priced shares, in some cases, may be the medium-priced and higher level issues of some future day. Below is a statement of the position and outlook of representative issues.

Barnsdall Oil has no bonds or preferred stock, with 2,223,579 shares of $5 par value capital shares outstanding. The company has been engaged in the producing end of the business, most of its holdings being in the Mid-Continent states where about 75,000 acres of leases are operating properties and nearly 700,000 acres are as yet undeveloped. Crude oil production in 1942 totalled 7,713,656 barrels net. Former refining properties were sold several years ago, but the company has casinghead plants, and it is also a producer of natural gas.

The earnings have averaged above $1 a share in recent years and have been at a better rate in 1943, with 80 cents a share reported for the first half. The dividend rate of 60 cents annually may be increased if this rate of income can be maintained. At the end of 1942 current assets were $5,299,141, current liabilities $1,546,384 and working capital $3,752,757. Around 16, the stock has longer pull speculative merit. It sold above 28 in 1936 and above 35 in 1937.

Houston Oil has $8,518,500 in bonds, 357,904 of $25 par value 6% preferred stock and 1,098,618 shares of $25 par value common stock. Dividends have been paid on the preferred at irregular rates in the past and there is now $6.12½ a share in accrued dividends on it. No common dividends have been paid. This company is almost entirely a producer of crude oil and natural gas. Most of its lands are in Texas. A feature of its holdings is that a large interest is owned in fee, or mineral rights are owned in fee. In some instances, this has enabled the company to reserve some promising acreage, where there is no contract, as is so often the case in leases, to drill wells. The proven area of lands owned or with mineral rights in fee is 46,489 acres, with 31,424 acres of leased lands proven. The undeveloped area is 838,812 acres in fee or with minerals rights in fee, and 127,697 acres under lease. The crude oil production of the company in 1942 was 2,942,000 barrels. The company also owns 91 miles of pipe lines. The properties are mostly in Texas, with some in neighboring states.

Earnings on the preferred stock would have fully covered the $1.50 regular dividend in recent years, with a fair balance on the common. In the first half of 1943, net was 51 cents a share on the common against 37 cents in the same period of 1942. A feature of the common stock is its high book value, which was $30.38 a share at the end of 1942. At that time, current assets were $7,637,929, current liabilities $979,015 and working capital $6,658,914. Other issues are safer speculations.

Lion Oil Refining bonded debt is $5,400,000, with one class of capital stock of which 435,809 shares are outstanding, of no par value. The com-

pany is a complete unit in the oil industry, with most of its properties in Arkansas. Refinery runs in 1942 were 6,708,814 barrels and gross production of crude oil 3,844,602 barrels. It owns 321 miles of pipe lines and operates marketing stations in several states. The company is also engaged in the manufacture of various chemicals in a Government-owned plant.

Earnings in the first half of 1943 were $1.51 a share against $1.29 in the similar period of 1942. In previous full years, income was usually above $2 a share. At the end of 1942, current assets totalled $6,392,829, current liabilities $2,730,327 and working capital $3,662,502. Paying a $1 dividend, the issue is one of the sounder low-price oils.

Ohio Oil was once one of the subsidiaries of the Standard Oil Co. of New Jersey, being one of the 32 companies segregated in 1911. It has $12,500,000 bank loans, but no bonds. The last of its preferred stock was retired early in 1943. The common stock consists of 6,563,377 shares, of no par value. Ohio Oil is usually thought of as only a producing company, but it is a complete unit in the oil industry. It has refining properties in Wyoming and Illinois which had runs of crude oil to them for a total of 5,853,000 barrels in 1942. It operates 2,450 miles of pipe lines and has marketing stations in five states of the Central West. The sales of gasoline at stations and at wholesale in 1942 were 145,000,000 gallons.

Ohio Oil is one of the larger producers in Wyoming and Illinois, also having large acreage in other states. The 1942 net production was 27,743,096 barrels, with over 10,000 producing wells in fifteen states and Mexico. It has large gas production in Wyoming, Montana and other states.

In the first six months of 1943, net income was 96 cents a share, which was at a higher rate than in previous years. Dividends have been conservative for many years. The current assets at the end of 1942 were $35,563,510, current liabilties $11,048,325 and working capital $24,515,185. This is a strong company but the stock seems a bit high on a dividend yield of less than 3 per cent.

Bonds and notes of Pacific Western Oil total about $2,400,000. It has one class of stock of which 1,000,000 shares are outstanding, par $10. The company is engaged in oil production and had 2,510,854 barrels output in 1942. Developed acreage is about 3,000 acres, with about 90,000 acres undeveloped. It is estimated that its proven reserves of oil in the ground are over 16,000,000 barrels. Properties are in Mid-Continent and California.

This company derives revenue from holdings of other oil company common stocks, including 641,808 shares of Mission Oil and 250,100 shares of Tide Water Associated Oil.

In the past two years, earnings in the first half year have been small, with 9 cents a share for the 1943 six months against 6 cents for the 1942 period, per share. At the end of 1942, the current assets were $2,053,983, current liabilities $391,239 and working capital $1,682,744. The stock is inactive and others appear to have greater speculative merit.

Funded debt of Pan American Petroleum & Transport totals over $25,000,000. There is only one class of stock, with 4,702,944 shares, par $5. The Standard Oil Co. of Indiana owns nearly 3,700,000 shares of the stock. This company operates a business of wide scope, with producing properties in Mexico and in Texas, including some recently acquired in that state at a cost of $9,500,000. It has a refinery of 100,000 barrels daily capacity in Texas and smaller plants in Maryland and Georgia. It operates 7 large tank steamers, 5 tugs and 14 barges, engaged in shipping oil products in peace times to its numerous wholesale stations along the Gulf of Mexico and Atlantic Seaboard states. Its retail stations are in many states of the New England, Middle Atlantic and Southern areas (American Oil Co., a subsidary, operates them).

Earnings have been adversely affected in the past two years by war conditions, most especially in the use of its marine equipment for Government work. The current asset position at the end of 1942 was $51,625,524, current liabilities $22,969,545 and working capital $28,655,979. Dividend record is unimpressive.

COMPARATIVE STATISTICS OF LOW-PRICED OIL STOCKS.

NAME	Capital Shares	Dividends Per Share 1943*	Dividends Per Share 1942	Earned Per Share 1943#	Earned Per Share 1942	Recent Price	Price Range 1936-1943 incl. High	Price Range 1936-1943 incl. Low
Barnsdall Oil	2,223,579	$0.45	$0.60	$0.80	$1.26	16½	35¼	7⅛
Houston Oil	357,904 pfd.	0.75	2.00	2.31	3.78	28	28½	12
	1,098,618 com.	....	....	0.51	0.61	7¾	17⅝	2¼
Lion Oil Refining	435,809	0.75	1.00	1.51	2.00	19	34	9
Ohio Oil	6,563,377	0.25	0.50	0.97	1.85	17½	22⅞	5⅜
Pacific Western Oil	1,000,000	....	0.50	0.09	0.73	15	29¾	4¾
Pan Am. Petr. & Trans.	4,702,944	....	....	0.17	0.82	11¼	20⅝	5
Panhandle Prod. & Ref.	881,907	0.10	0.10	0.21	0.11	3¼	4½	½
Plymouth Oil	1,048,816	0.75	0.90@	1.05	1.71	18½	29⅞	11⅛
Pure Oil	282,997 pf6	6.00	6.00	7.72	18.98	110	117½	79
	442,434 pf5	5.00	5.00	7.72	18.98	105½	107½	63¾
	3,982,031 com.	....	0.50	0.92	2.53	16	24⅞	6⅛
Richfield Oil	4,010,000	....	0.50	0.38	0.91	10	12⅛	4⅛
Sinclair Oil	12,651,405	0.50	0.50	0.76	1.49	11½	17⅞	4⅝
Socony-Vacuum Oil	31,178,323	0.50	0.50	0.47	1.07	13¼	23¼	6⅛
Texas Gulf Producing	888,152	0.20	0.20	0.23	0.56	5¾	9⅝	2
Texas Pacific Coal & Oil	886,541	0.30	0.50	0.55	0.97	15	18	5⅜
Tide Water Assoc. Oil	500,000 pf.	4.50	4.50	12.51	23.83	101	103½	72
	6,375,364 com.	0.45	0.70	0.80	1.52	14	21⅝	8

*Paid or declared
#Six months to June 30
@Also 1½% stock dividends
&Also 3% stock dividends
(A)Estimated amount to be outstanding when all Superior Oil stock exchanged.

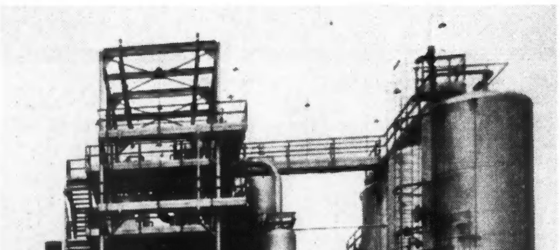
Panhandle Producing & Refining has about $600,000 in funded debt. Capital stock outstanding is 881,907 shares, par $1. The company operates through subsidiaries which are engaged in all branches of the oil business. There is a 4,000 barrel daily-capacity refinery at Wichita Falls, Texas, and several skimming plants and cracking plants are operated. The finished products are sold through bulk stations and over 200 service stations in Texas, Oklahoma and New Mexico. Most of the oil producing and undeveloped acreage is in Texas, with holdings of above 16,000 acres. Panhandle is operating a 100-octane gasoline plant for the Government.

This company is also a factor in the steel industry as it has a plant actively engaged in making bolted tanks for the oil trade, structural steel and oil well equipment in peace times. For over a year, this part of its business has been operated on war orders.

Earnings were 21 cents a share in the first half of 1943 against 5 cents in the same period of 1942. The current assets at the end of 1942 were $1,329,760, current liabilities $540,041 and working capital $789,719. The stock is a rather radical speculation but has often rewarded those who bought it at deeply depressed prices.

Plymouth Oil has no bonds, but has about $2,450,000 bank loans. The capital stock is 1,048,816 shares, par value $5. Through subsidiaries, the company is engaged in refining, transporting and marketing, but its own operations are nearly all in the producing end. Its acreage is mostly in Texas. The 1942 production totalled 5,713,408 barrels. The oil is considered especially suitable for high octane gasoline. A Government-owned plant for making this gasoline is operated by Plymouth.

Earnings for the first six months of 1943 were $1.05 a share against 77 cents in the 1942 period. Current assets of $1,687,791 were shown at the end of 1942, with $968,462 current liabilities and $719,329 working capital. The stock is a sound medium-grade issue.



Plant of the Tide Water Associated Oil Company for Removing Wax Constituents from Lubricating Oils

Pure Oil has a funded debt of a little over $3,000,000, followed by two classes of preferred stock on which 282,997 6% preferred and 442,434 shares of 5% preferred are outstanding, par $100 each. The $5 preferred is convertible into common stock at $30 a share until October 1, 1947. The outstanding common is 3,982,031 shares of no par value. This company is in all lines of the industry. Its refineries had runs of crude oil of 32,500,000 barrels in 1942. It operates several natural gas plants. It has 1,125 miles of pipe line and operates 12 tank steamers and 32 barges. Producing properties are in a number of states with nearly 250,000 acres developed and undeveloped holdings over 1,300,000 acres. The 1942 production was 25,040,000 barrels. Oil reserves are estimated at above 500,000,000 barrels.

Gasoline Rationing

Gasoline rationing particularly affected this company as it is one of the largest retailers, with nearly 14,000 stations in nearly all parts of the country. Earnings in the first half of 1943 were 93 cents a share on the common stock against 01.21 in the 1942 period. At the end of 1942, current assets were $47,641,590, current liabilities $16,725,987 and working capital $30,915,653. Stock is a sound speculation but considerably removed from the bargain counter. Note the preferred issues ahead of it.

Richfield Oil has no bonds, but the company has about $7,000,000 in bank loans. The 4,010,000 shares of stock are of no par value. Cities Service owns 1,189,568 and Sinclair Oil 1,196,868 shares of Richfield stock. Of the 1,250,000 purchase warrants of Richfield, Cities Service owns 377,031 and Sinclair 344,831. Each warrant entitles the holder to buy a share of stock at $20 a share until March 14, 1947. Richfield is a complete unit in the industry. Crude oil produced in 1942 was 7,200,000 barrels; sales of refined products were 22,508,000 barrels. Refining plants are in California, as are large holdings of oil leases, with some in other states, with the total of all 213,000 acres. Pipe lines are operated in California and marketing stations in many states.

Earnings in the first half of 1943 were 38 cents a share against 28 cents in the 1942 period. At the end of 1942, current assets were $36,974,566, current liabilities $8,345,775 and working capital $28,629,091. There are better low-priced oils.

Sinclair Oil was the original title of the company, then it was Sinclair Consolidated, then Consolidated Oil and, a few months ago, the present title was readopted. The company has about $81,000,000 in funded debt and abut $11,000,000 bank loans and purchase money obligations with outstanding capital of 12,651,405 no par shares. It is in all branches of the industry, also holding stocks of other companies including (*Please turn to page* 96)

Stockholders Audit of the Aircrafts

BY J. C. CLIFFORD

Inside a pilot's compartment of a Glenn L. Martin Co., bomber. Extensive use of instruments make American airplanes the best in the world.

THE long sustained low-level flight of aircrafts appears finally to have reached its nadir. Prices seem to have struck rock bottom; at any rate they cannot be far above. Due to the abnormal conditions surrounding their position and outlook, aircraft equities even during the past market upswing were never particularly popular; their market action has reflected existing doubts and investor aloofness. By now the group looks pretty well sold out and ready to await clarification of its future status.

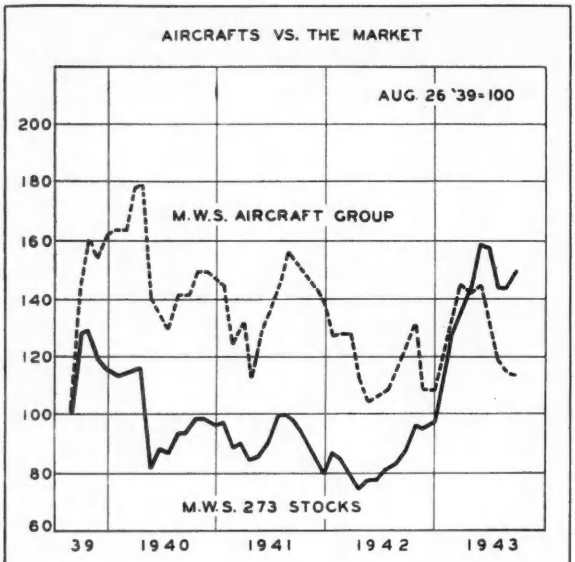
With the recent establishment of a double bottom, market opinion seems satisfied that liquidation has run, or about run, its course and a foundation been created for a new departure as soon as a clearer view can be had of the future. In this respect, shafts of light have begun to penetrate the darkness, or so it is thought by the optimists, and this is cited as the reason behind the relative strength of aircrafts in recent weak markets.

The growing possiblity of the revision of the renegotiation law, belated recognition of the really substantal advantages of the carry-back provision of the tax law, the emergence of VT loans to keep working capital from being frozen and more correct valuation of the tax buffer in the event of severe earnings declines appear to have bolstered opinion. The case was clinched by disclosure of the Treasury tax program providing for carry-backs of such expenses as reconversion, dismissal pay and deferred maintenance. All these straws in the wind have tended to perk up market opinion on aircrafts, low as it was, and the market now appears willing to stand by its guns and await the outcome. And well it may.

For the majority of aircraft stocks sell only a trifle above the year's lows and close to or below book value, some even below net current asset value. Price-earnings ratios average about 3 to 1, against 60 to 1 in 1937, and dividend yields average around 10%, ranging between the extremes of 4½% and 15½%.

The market's caution has been matched by that of management in general accounting policy. Dividend payments in the past represented only a small portion of actual net earnings which were large despite extremely heavy taxes. As far as the latter and the deleterious effect of renegotiation on earnings permitted, reserves and working capital are being strengthened systematically and amortization speeded to the utmost. 1943, it seems, will witness a general cleaning up of balance sheets; the tendency is to write off as many items as possible and permissible. Despite still expanding volume, this may mean smaller net than expected. The growing shift from fixed-price to fixed-fee contracts will accentuate this but on the other hand, renegotiation should then become a far less severe factor.

Yet the industry faces critical financial problems. Paramount is the doubtful working capital position —in relation to potential needs when the war boom



subsides—which thanks to taxes and renegotiation has patently failed to keep pace with the tremendous expansion. The aircraft industry entered the war period with relatively slender resources, characteristic of a young and growing industry. Thus while working capital expanded in total amount, it shrunk drastically in ratio to current operations. This situation is highlighted in a recent analysis of the Harvard Business School according to which the current ratio for the industry averages about 1.09 to 1 compared with 1.7 to 1 before the war. Similarly, the analysis calculates that stockholders capital at the end of 1939 was equal to 53% of annual sales and shrank to 8% at the end of 1942. The industry's expansion was largely financed by Government so that last year, nearly 90% of plant capacity was Government-owned. As to working capital itself, the analysis estimates that about 73%, on an average, consist of Government money, reflecting the high proportion of inventories and/or receivables in connection with war orders. 1942 earnings, on an average, were reduced through renegotiation from $11.1 million to $7.2 million. Including taxes, the average airplane manufacturer refunded to the Government $16.6 million last year with the result that working capital was cut some 24% below what it would otherwise have been. Consequently liquid funds, in the case of the average company, at the end of 1942 were only sufficient to meet 5 weeks payrolls while net working capital was only large enough for 2 weeks needs for payrolls and materials.

These findings of the Harvard Business School speak an eloquent language though conditions differ, of course, between individual companies and hence they cannot be over-generalized. However, they do illuminate the magnitude of the existing financial problem which is such that policies and precautions of individual companies can not greatly change the situation. Any major corrective action will have to be initiated by the Government. The industry and the stockmarket now appear to be waiting for this.

Statistically, aircraft equities are definitely on the bargain counter, with few exceptions. But the important question is their worth in terms of future earnings and dividends, their future market value. This is turn would seem to depend (1) on their ability to survive the rigors of reconversion; and (2) on future demand for their products. Problems surrounding reconversion are manifold and do not center on financial questions alone. They are based on certain contingencies such as the length of the war, the type of peace, the social, economic, military and technical problems which may arise as a result. Their interrelation with the demand outlook is evident.

From a purely financial standpoint, a long war may very well have its beneficial aspects, affording more time to build up reserves and strengthen working capital. Also, the type of peace may be an important factor in governing the demand outlook. In a larger sense, however, these questions are overshadowed by existing financial considerations and today, aircraft companies must be appraised with particular reference to their ability to meet such problems as the absorption of losses from contract termination, to meet the costs of reconversion and to raise new capital or retain sufficient funds to maintain peacetime production.

Post-War Potentials

Hence a searching inquiry into financial potentials in relation to prospective peace-time business, as well as ability to reconvert efficiently, would appear in order. Peace-time business is naturally an unknown quantity but according to recent private and official estimates, it may come to no more than about $1 billion annually compared with this year's output of $20 billion and an expected $30 billion next year. In other words, a deflation of some 95% must be reckoned with. Still, even on this drastically lower basis, output would be about four times 1939 volume, and this was a year when most leading companies earned fair profits.

Faced with a 95% shrinkage of available business, it is fortunate indeed that the industry has managed to keep down its cost basis almost proportionately. Plant investments have shown little increase as the huge war-time expansion of facilities was primarily Government-financed. In fact, privately owned capacity may actually prove inadequate for peace-time operations, in many cases.

On the other hand, there is great variation in financial ability to absorb the shock of reconversion. On examination, one finds that most companies within the narrow legal limitations permitted have prepared fairly well against the inevitable post-war hazards. An outstanding example is United Aircraft, largest and most diversified producer in the field. Its balance sheet presents a most conservative picture. Its own plant investment has been steadily reduced and on June 30 amounted to $15.7 million against $17.3

million at the end of 1940 when the war rush really began. Sales in 1942 were $519.4 million against only $52.1 million in 1939, yet working capital rose from $18.66 million to $77.34 million. In other words, the ratio betwen sales and working capital is currently 7 to 1 while in 1939 it was 3 to 1. On the latter basis, current working capital would appear adequate to support an annual volume of business of some $231 million (an unlikely prospect) if it were not for the cost of reconversion, an unknown quantity. To meet this contingency, the company has sizable resources.

If the war were to end tomorrow, and assuming liquidity of 90% of working capital through Government action, these would add up as follows: Working capital $69.60 million, post-war reserves $26.01 million, post-war tax refund $6.01 million, making a total of $101 million. This compares with total assets as of June 30 of $189 million, and current assets of $162 million, an excellent showing of liquidity.

Under normal conditons, one might call it almost sensationally good. But conditions are not normal. This pleasing picture is compromised by two important factors: (1) the unknown cost of reconversion; and (2) the procedure of contract termination. Reconversion, apart from its basic cost, can be quick, efficient and hence expenditures can be kept to a minimum. It can also be long-drawn-out, full of unexpected expenditures and thus relatively costly. Similarly, contract termination could be a source of substantial losses. Expectation is that the Government will attempt to avoid the latter, as much as possible, but it cannot govern reconversion cost alone. Efficient management is a prime element and in this respect, United is particularly blessed. Its management has built up cash position to a total of $69.44 million (including $25 million U. S. tax certicates) as against current liabilities of $85.63 million. As the only company in the entire aircraft group, United's current ratio, now nearly 2 to 1, is today higher than in 1939 when it was 1.5 to 1.

In 1939, United's sales accounted for about one-fifth of industry volume; in 1942 it did somewhat over one-tenth of the total of $5 billion done, exclusive of other than the aircraft industry. Should the company manage to obtain one-tenth of the estimated post-war volume of $1 billion, sales would come to some $100 million or twice 1939 volume. In the latter year, earnings were $3.53 per share. This naturally does not permit assumption of a proportionate rise in post-war earnings. Corporate taxes will be higher even if EPT is repealed immediately after the war. Costs and wages are likely to remain above prewar. To maintain the projected volume, the company will probably need added plant facilities. Such can doubtless be acquired from the Government on a reasonable costs basis. Also, the company to strengthen working capital sold in 1942 a preferred stock issue with annual dividend requirements of $1.18 ahead of the common.

Yet the overall outlook, viewed conservatively, would point to good if not excellent earnings after the war. Besides the factors just enumerated, their extent would further depend on the need to raise additional capital which in turn would be largely contingent upon the adequacy, or inadequacy, of existing resources to take care of reconversion costs. United's operations are huge and far-flung and consequently reconversion costs may be proportionately large. We have no way of knowing just what they might be. Its exact determination appears to hinge largely on Government policy.

Douglas Aircraft Co., second largest airplane contractor and still expanding, last year had sales of $501 million against $27.9 million in 1939, a roughly twenty-fold increase. Working capital expanded barely four times to $34 million. The current ratio declined from 1.9 to 1 to 1.4 to 1. Self-owned plant facilities are carried at about $7.32 million (net) against $3.90 million in 1939, relatively a sizable increase compared with the showing of United Aircraft. Yet measured against potential peace-time needs, it is by no means excessive though it may make for a somewhat higher cost structure relative to potential competitors obtaining and utilizing low-cost-Government plants after the war. Since the amount involved is small, this point should not prove too significant, however.

Douglas, a well seasoned company, at the end of last year had cash of $20.8 million against current liabilities of $78.64 (*Please turn to page* 99)

	Book Value per Share		Net Quick Assets per Share	Net Work. Capital $millions		Special Reserves	Earnings per Share		Dividends per Share		Price Range	Recent Price	Yield* %	Price-Earnings# Ratio
	1939	1942	1942	1939	1942	$millions	1936-39 Avge.	1942	1936-39 Avge.	1942	1943			
Aviation Corporation	2.86	4.06	1.32	3.10	7.67	0.60	d0.13	0.82	0.05	0.25	6⅜- 3¼	4	6	5/1
Beech Aircraft	2.04	9.99	2.50	0.29	1.00	.....	d0.05(b)	6.04	None	1.00	14⅜-10¼	13¼	7.7	2.2/1
Bell Aircraft	8.18	29.37	8.52	1.28	3.04	2.40	0.18	11.78	None	2.00	20½-12	13⅛	15	1.1/1
Bellanca Aircraft	3.50	4.72	2.00	0.40	0.46	.....	0.11	3.01	None	None	5 - 2⅝	2¾	....	0.9/1
Boeing Airplane Co.	5.33	26.91	18.00	1.50	19.44	7.81	d1.14	4.84	0.10	1.00	21¼-14⅜	15⅛	6.6	3.1/1
Brewster Aeronautical	3.26	3.19	0.81	0.66	0.46	1.00	0.24	d2.54	0.14	None	7⅝- 3	5⅛	....	.....
Consol. Vultee Aircraft	8.02	20.54	9.04	3.99	14.70	5.70	1.33	8.42	0.19	1.00	27¼-21	22	4.5	2.6/1
Curtiss-Wright	3.92	7.46	5.75	8.77	49.42	15.22	0.08	1.45	None	1.00	9½- 6⅞	7¼	14.3	5/1
Douglas Aircraft	23.03	88.00	56.70	9.10	34.02	6.87	3.05	18.42	1.50	5.00	73½-56	60⅛	8.3	3.2/1
Fairchild Aviation	3.22	10.53	19.30	0.74	6.50	0.80	0.71	2.75	0.21	1.00	10⅝- 7¼	7¾	12	2.8/1
Grumman Aircraft	4.06	11.73	5.70	1.83	2.89	2.11	0.93(c)	4.44	0.56(c)	1.50	17¼-10½	12⅝	11.5	2.8/1
Irving Airchute	6.55	5.85	3.14	0.77	0.62	0.11	1.55	1.60	1.26	1.25	10¾- 7½	8⅛	15.5	5/1
Lockheed Aircraft	10.80	37.21	11.22	2.89	12.08	12.66	1.27	7.59	0.25	2.00	25⅜-16¼	17⅜	12	2.3/1
Martin (Glenn L.) Co.	16.40	28.65	15.06	8.70	16.67	3.00	2.02	6.01	0.25	1.50	24 -16⅛	17¾	8.3	2.9/1
North American Aviation	2.79	7.16	5.64	7.74	19.37	2.60	0.69	3.04	0.48	1.00	14¼- 9½	10¼	10	3.3/1
United Aircraft (f)	12.25	25.43	29.11	18.66	77.35	26.01	1.96	5.99	1.19	3.00	40 -25⅝	30½	10	5.1/1

based on 1942 div dends. #based on 1942 earnings. d-Deficit.
(b)1937-39 average.
(f)balance sheet items as of June 30, 1943. (c)Adjusted for 300% stock dividend in 1937, 5/1 split in 1937 and 5/1 split in 1936.

Will Drug Companies Continue At Peak?

BY GEORGE W. MATHIS

THE drug industry includes a number of subdivisions—ethical drug companies, proprietary and pharmaceutical (successor to the outmoded "patent medicine" producers), specialty drug companies, drug store chains, makers of cosmetics. We are principally concerned here with the first two groups. The "ethical products" companies have been active in the development of vitamins, hormones, serums, fine pharmaceuticals, and new products such as the sulphanamide compounds and the new miracle drug penicillin.

The term "ethical" implies that these companies cooperate fully with the medical profession and do not advertise in the flamboyant, exaggerated manner which characterized the patent medicine industry in former days. While the old style advertising has been pretty well cleaned up anyway, it will be recalled that at times the Federal Trade Commission has "cracked down" on some pet phrases used by advertisers, which seemed to imply special healing qualities. Most of the ethical companies are very active in research and their advertising is for the most part on a highly professional plane, along lines approved by the American Medical Association. The trend of the entire industry has, in fact, been toward higher standards during the past decade, and the present increased interest in health-building and sound medical practice is a long step forward from the quackery and "wild west" type of advertising which at one time characterized a good part of the industry.

The accompanying table tabulates some of the leading companies in the two major groups, but it should be emphasized that it is difficult to determine whether some companies belong in one group or the other, since the business frequently covers both fields. Most of the leading companies manufacture hundreds of products and have numerous activities, so that there is no clear-cut separation.

The drug group has done relatively well during the war, as might be expected due to the demands of the armd forces and lend-lease, but taxes have tended to retard earnings as with other industries. Out of twenty-three companies, thirteen showed gains in share earnings in 1942, while ten fell behind; of eighteen compaines reporting interim figures for 1943, fifteen showed gains, two were about even with last year and only one (Squibb) showed a decline. Thus, the 1943 outlook for the group appears excellent unless growing supply shortages produce unfavorable results in the last half. Companies showing substantial gains in share earnings in the first half as compared with last year were Bristol -Myers, Lambert, Abbott Laboratories, Allied Laboratories, Mead Johnson, Merck, Norwich, Parke Davis, Sterling, United Drug, Universal Laboratories and Zonite.

Regarding the market record of the group, it is interesting to note that Standard & Poor's average for thirty-one drug and cosmetic stocks is currently just one point ahead of the average for 402 industrial, rail and utility stocks—just as it was one point ahead in 1927, when the general price level was about thirty per cent higher. However, the drug group did somewhat better than the market as a whole in 1929 and did not decline so far in 1932.

Recently, due perhaps to the wide amount of publicity given to the sulphanamides and penicillin, the group has acted quite well in relation to the general market. It is probable that, if a new market index could be compiled to include only leaders in the "ethical" and proprietary groups, the price record over recent years would prove to be considerably better than for the general market. Stocks like Pfizer and Squibb appear to have done better marketwise than the entire group in recent years, possibly due to their aggressive research policies.

However, while the group as a whole has not gained in relation to the general market over the past 18 years, many drug stocks have returned good

LEADING DRUG COMPANIES	Est. Earnings 1943	Price-Earnings Ratio	Est. 1943 Dividends	Approx. Yield
ETHICAL DRUG COMPANIES				
Squibb	$4.00	15.3	$2.00	3.3%
Abbott Laboratories	3.00	19.7	2.00	3.4
Allied Laboratories	2.00	8.5	.70	4.1
Parke Davis	1.50	20.7	1.30	4.2
xMerck	3.00	16.0	1.00	2.1
xPfizer	3.00	15.0	1.40	3.1
Sharp & Dohme	1.30	9.3	.50	4.2
PROPRIETARY DRUG COMPANIES				
Bristol-Myers	3.75	11.4	1.90	4.4
Lambert	2.50	10.4	1.50	5.8
**Sterling Drug	4.25	15.1	3.00	4.7
*United Drug	2.00	7.0	.30	2.1
Vick Chemical	3.35	13.2	2.00	4.6
Chesebrough	7.00	14.3	5.00	5.0
#McKesson & Robbins	3.00	7.4	1.15	5.3
**Mead Johnson	10.00	14.9	6.25	4.2
Zonite	.60	5.8	.20	5.7
Norwich Pharmacal	1.10	16.4	.60	3.3
**American Home Products	5.00	13.6	2.40	3.5

*Also has a large retail chain

xStock is inactive over-counter; price is very approximate.

#Also important in the wholesale field.

**Substantial business in ethical drugs.

dividend yields throughout most of the period and there have been relatively few failures — the outstanding one, McKesson & Robbins, was due to partial diversion of assets to gambling in commodities by several insiders, and the company has retained an important place in the industry despite this serious blow.

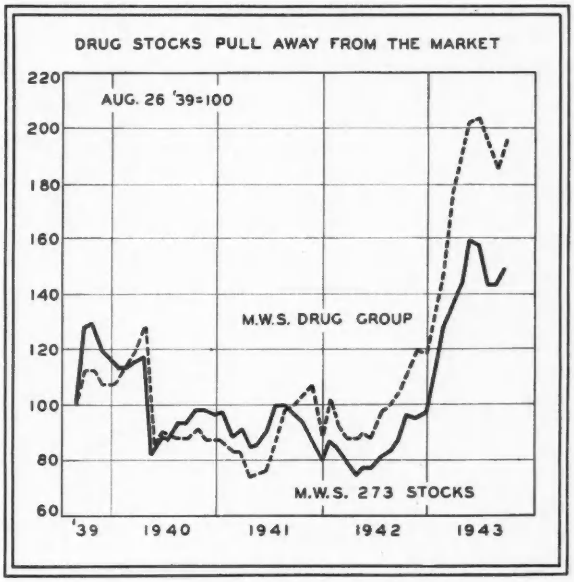
How secure is the future of the business? It was recently estimated that people are spending $100 millions a year for cold remedies, $300 millions for vitamins, and a few odd millons for aspirin, paper handkerchiefs, etc. The common cold is, it is thought, produced by a "virus," one of the smallest types of organisms, with which science has not yet learned how to deal effectively. Any discovery of a specific remedy for colds might thus deal the drug business a heavy blow. On the other hand, the industry is highly flexible and those companies alert enough to push new lines of research and exploit new products, such as penicillin, should continue to make money regardless of any revolutionary new discoveries.

Moreover, as a nation we are becoming increasingly interested in health preservation, periodic medical examinations, socialized medical treatment, etc. Leadership in medical research has definitely passed from Europe to the United States. The Federal Government is actively engaged in cancer research and is aiding hospitalization insurance, etc. Recent cooperative efforts between private companies and the Government in mold research, apportionment of penicillin between the Army and private patients, is an important step forward. Sale of the new products on a commercial basis after the war, with a favored position in the world export trade, promises good profits for companies actively interested such as Squibb, Merck, Pfizer, Winthrop, Commercial Solvents and others. Profit margins at present are probably limited by Government handling of distribution but should improve after the war.

Moreover, the United States should be in a well entrenched position in the world vitamin field. The sulphanamides and other synthetic drugs such as atabrine (the new malaria remedy) should be in great demand (along with vitamins) to help restore the health of a huge foreign population which has suffered from malnutrition and disease engendered by the war. Germany will have to fight hard to regain even part of her pre-war business. It seems certain that Government subsidies will be used in an increasing scale to fight disease in the tropics. Lend-lease will probably continue for a time after the war, with an increasing proportion of funds devoted to disease preventing or health rebuilding supplies. Thus while some of the ethical stocks are selling rather high in relation to earnings, they still seem to have attractive growth possibilities.

Supplementing the figures contained in the accompanying table, we comment as follows:

E. R. Squibb & Son was established in 1858 but has grown rapidly in recent years, sales more than doubling since 1936. The company has become increasingly prominent in the research field and recently announced that it had developed the "Squibb strain" of penicillin with improved yields. The crystallization of the drug in the form of a pure sodium salt is expected to pave the way for chemical analysis of its composition and resulting discovery of methods to produce it synthetically rather than through the present laborious process of mold cultivation. The stock has been strong on the Exchange recently, gaining 2½ points in one *(Please turn to page 102)*



FOR PROFIT AND INCOME

War Stocks

Some professional analysts and several advisory services are now taking a more bullish viewpoint on "war stocks." This does not reflect a change of opinion as to the probable duration of the war. The reasoning is simply that "selected" war stocks look cheaper on a price basis than the long popular peace stocks. Most of these stocks, until very recently, had been in a persistent downtrend for from six to nine months. Many are little, if any, higher than at the start of 1942 when the general market was in the final phase of a major bear movement. Most have property and liquid assets substantially greater than before the war. Some probably will have a post-war volume of business larger than present market values allow for, though well under present volume. The majority will be substantially "cushioned" in the transition period by tax-law provision for carry-back of losses and for excess profits tax exemption credits.

On the other hand, "war stocks" will remain under considerable uncertainty as regards both contract renegotiation and the actual character of final contract settlements. If a basic turning movement is in the making, this column feels it probably will be a gradual development, and that longer term buyers need not be in a hurry in shopping for bargains. Furthermore, it would be well to put out of mind such loose classifications as "war stocks" or "peace stocks" and examine any given stock solely on its individual merits or lack of them. Most of the "war companies" are strongly established and large enterprises which were in business for many years before the war. Some of the best of these—though the stocks may not yet be ready for sustained recovery — are United Aircraft, Sperry, Todd Shipyards, United States Steel, New York Air Brake, American Steel Foundries.

London Market

The London market, like our own, appears stuck in a trading-range rut. The difference is that London is much more used to slow-motion markets than we are. While long-term movements are quite broad, the pace usually compares to ours like the tortoise to the hare. One result is that the British market is much less given to sharp, short-term reversals of direction. The London market did not have any "early peace" reaction following the fall of the Mussolini regime in Italy last summer. In fact, the Financial Times index of industrials advanced moderately into early September to a new bull market high. However, the range has been exceedingly narrow — less than 3 points—for the past two and a half months; and at this writing

This is not a combination of giant mortars and multiple machine guns but the upper half of an 80,000-kilowatt General Electric turbine shell for Duke Power Company

the level is about 2 points under the high. As in America, the investment and speculative preference has been mainly for "peace stocks." One technical phenomenon about the London market that will bear watching is that the rail index has been in a clear-cut, even if moderate, downward trend ever since early last May and still looks dubious.

In An Indeterminate Market, Bull-Market Stocks Are Still Individually Numerous

For lack of technical evidence to the contrary, it is assumed that the bull market which began in the early spring of last year is still "in being"; and that the phase of reaction and irregularity since last July is merely of "intermediate" nature. But as long as the averages are confined to a clear-cut trading range, as at present, all the technical "signs" lack "authority." Whatever the trend may turn out to be, a number of individual stocks persist in their own bull markets. A partial list of these — on the test of having surpassed last July's highs—follows:

Allied Mills, American Distillers, Francisco Sugar, Sheaffer Pen, Spencer-Kellogg, Thatcher Manufacturing, Western Union Class A, Outlet Company, Cudahy Packing, Federal Mogul, Alpha Portland Cement, American Viscose, Armour, Bond Stores, Brewing Corporation, Decca Records, Electric Storage Battery, Goodrich, Homestake, Johns-Manville, McCrory Stores, Mid-Continent Petroleum, Mohawk Carpet, United Drug, Western Auto Supply, Acme Steel, Reliable Stores, Servel, General Mills, Procter & Gamble, Wilson.

Secondary Stocks Versus Leaders

In the irregular corrective phase since the market made its average highs last July, the Dow-Jones industrial average at no time reacted more than about 8 per cent from its high, while a great many "secondary" stocks reacted two to three times as much on a percentage basis. Some figurers argue that either the "prominent" stocks are too high and ought to slip down, or the average "secondary" stock is too low and ought to rise. Time will tell. The fact to keep in mind is that the Dow "average" is not an average of the market at all but an average of 30 selected industrials, all large and prominent companies. Considered as a whole, these 30 companies are so large that, with respect to percentage growth of volume and profits in an active business period, they are up against a kind of law of diminishing returns as compared to a great many smaller companies. Most of the stocks not included in the Dow "average" go up more than this "average" in a bull market and come down more than it does in a reaction or a bear market. Buying stocks of big, long-seasoned companies has its points; but because so many investors are in this habit, one usually pays a premium for prominent, popular issues. You get more earnings and dividends for your money in selected "secondaries," also a much bigger appreciation potential. But successful shopping among secondary stocks obviously requires sounder judgment and more careful study than is required in selecting prominent "leaders." In short, a "dog" is a secondary stock but not by any means all secondary stocks are "dogs."

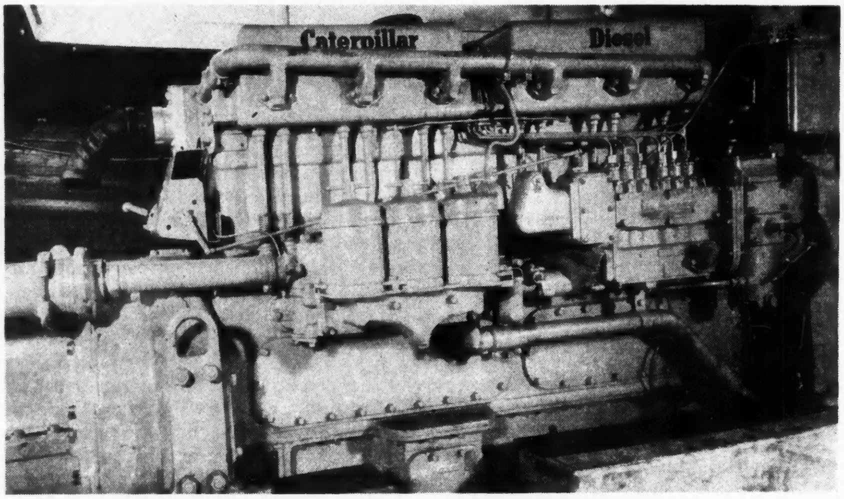
Square D Company

Speaking of secondary stocks versus leaders, consider the example of Square D Company and General Electric. Both are classed as "electrical equipments," though each makes many products other than electrical. Each banks heavily on continuous research. The latter is, of course, many times bigger than the former. In 1937, the most active recent pre-war year, Square D had an operating income 3.8 times larger than in 1930; GE's was about 1.2 times larger. (Figures for sales comparisons are not available.) Square D had a 1937 net profit about 11 times greater than in 1930; GE's was about 1.1 times greater. Over that 7-year peace period of depression and recovery, the smaller company had a profit growth ten times greater than the "leader" in the industry. In the war period, comparing 1942 with 1939, Square D sales increased about 5.6 times; GE's about 3.4 times; the former's net profit increased about 2.7 times, the latter's about 1.1 times. Square D stock today is priced at about 77 per cent of its 1937 peace bull-market high, GE for about 56 per cent. Had it been bought at the low in the 1938 slump, Square D today would show a profit of about 200 per cent; GE about 34 per cent. This is not a prediction for the future—just an example of the fact that an aggressive, ably managed small company usually grows faster and rewards the stockholder more richly than can an aggressive, ably managed big company. Besides, the small company can buy up other enterprises to round out its activities without too much worry over possible anti-trust prosecution for so doing.

Preferred Stocks Above Call Prices

Investors who buy preferred stocks above their call prices can in many instances get a very good dividend return — but they are taking a chance of eventually losing some money when and if such an issue is called for retirement or refunding. If the "call" should be deferred over a long period of years, the capital loss would be equivalent to a quite modest reduction in average annual income return over the period. But, not being an "insider," the typical investor can not read the mind of corporate management or foresee if and when a preferred issue will be called. If called within a year or two after purchase, the capital loss may in some instances substantially exceed the total dividends received. Investors would be well advised to avoid preferreds priced substantially above call figures. Examples of such

(*Continued on page* 97)



Caterpillar Diesels, Twin Disc, propeller 40" diameter, 30" pitch

Who Will Make Money In Diesels?

BY PHILLIP DOBBS

THE importance of Diesel power in modern warfare is focusing attention on the truly impressive headway being made in that field. The war has immensely accelerated new developments in Diesel engines and greatly speeded long-term trends that were in the making before. While much of war-time research is kept secret, it is known that progress has been remarkable. Striking advances in engine design including greatly improved fuel injection systems, lighter weight, higher rotative speed, increasing application of supercharging and extensive development of the economical two-cycle motor have measurably widened the scope of Diesel power use, thereby greatly expanding current markets and future potentialities.

Above all, the Diesel engine has considerably stepped up the range of modern war machines; it has thus become an important adjunct of mechanized warfare. Its advantages are many, as are its war-time applications. Most important is fuel economy which means that tanks, trucks, motorboats and submarines can travel farther from their bases. Not only will Diesel engines do more work on the same amount of fuel but the fuel they burn is cheaper, costing about one-third less than gasoline. Diesel fuel is non-explosive, a big factor in war-time use. Another advantage is fuel flexibility; it has been discovered that in an emergency, Diesels run satisfactorily on such substitute fuels as whale oil, soybean oil, kerosene or gasoline.

The manifold demands for Diesels are currently booming production. In 1941, industry turned out engines totaling about 4.6 million h.p., or ten times 1929 output. 1942 production is said to have exceeded this by at least 50%; it should be still higher this year.

One of the most recent developments is General Motors' "pancake" Diesel. Now in production at the company's Electro-Motive division, the new engine is believed to be the lightest ocean duty Diesel in the world. It is widely used in subchasers and escort vessels and occupies only about one-third of the space of earlier engine types. Thus, weight and space gains can be utilized for carrying greater loads and more fuel, givng far greater range.

A second important war-time development is the radial type air-cooled Diesel motor manufactured by the Guiberson Diesel Engine Co. The Buda Company, one of the larger Diesel makers, is also producing these engines under license from Guiberson. At present, they are being used primarily in tanks; being air-cooled, they are admirably suited for desert warfare.

Another important newcomer is a twin-Diesel now being produced by General Motors. It provides much greater flexibility in the operation especially of heavy tanks. The two units are geared together, operating a single drive mechanism, though one or both can be used similar to the motors of a twin-engine airplane.

Weight per h.p. has been greatly whittled down, largely the result of intensive war-time research. A decade ago, Diesels often weighed as much as 250 pounds per h.p. Now, a light, reliable engine has been developed delivering one h.p. for every 4 or 5 pounds of weight. This is great progress, foreshadowing definite entry of Diesels in the aviation field, but it also greatly increases their usefulness in transportation. The weight saving was achieved chiefly by improved injection systems; lighter yet

stronger alloy steels have also helped.

The use of multiple Diesel units in ships is another new trend and is finding wide application in naval vessels of all types. Some experts estimate that universal use of Diesel power in naval ships could increase effectiveness by about 35%, in point of cruising range or carrying power.

A new principle of supercharging two-cycle motors, something never before thought commercially practicable, is now under development by the American Locomotive Co. An original invention of the Swiss concern Sulzer Bros., this revolutionary procedure has most far-reaching implications in the marine and stationary power fields. Compared with a 2500 h.p. standard model, the new supercharged engine would have only one-fiftieth the weight per h.p., and its actual size would be only a fraction of the older type, though capable of similar performance. The development is naturally attracting wide attention but it will take considerable time before such engines appear on the market. American Locomotive Co., holding U.S. rights, may eventually greatly benefit therefrom.

Continued Development

Altogether, Diesel engine design has been and still is undergoing revolutionary changes in many directions. What previously was considered as limits to Diesel performance is being exceeded daily in research laboratories. The Diesel is a versatile engine, ranging from very light-weight airplane units (still experimental in the U.S.) to the heavy stationary monsters weighing hundreds of pounds per h.p. Today, not only are they widely used in ships, locomotives, tractors and diverse machinery but in tanks, self-propelled artillery, military trucks, boats and tractors, and as auxiliary power plants in the field. After the war, according to best engineering opinion, Diesels are bound to play a much greater part than ever before.

One of the most rapidly developing markets has been industrial and farm tractors with the economy of Diesel operation resulting in sharp expansion since 1932; in 1941 this constituted by far the most important single outlet. Here, Caterpillar Tractor Co. is a dominant factor, its sales far exceeding those of its leading competitor, Allis-Chalmers (using GM Diesels), Cleveland Tractor Co. (using Hercules and Buda motors) and International Harvester.

The influence of improved design is clearly seen in the development of light-weight Diesels for powering small electric generating units, permitting production of electric power at a cost of around three-quarters of a cent per kilowatt hour. They have found ever-widening use for supplying power to small manufacturing plants, gasoline stations, hotels, resorts and as standby emergency power units for hospitals. It is in this particular field, the development and use of so-called "package power sets," where greatest growth prospects are envisaged by Diesel makers. Such units where the engine drives an electric generator or some mechanical device are being proved by a multitude of direct war uses. Their peace-time potentials are numerous but a requisite for healthy development of this field is adequate provision for servicing and maintenance. With many soldiers now becoming familiar with Diesels, there should be no lack of trained personnel after the war.

Use of Diesel power for buses and trucks also grew rapidly, though the differential advantage over gasoline engines is not quite so pronounced in this field. But recent improvement in design has led to greater economy and reduced maintenance, and granted development of adequate service facilities, further growth is held certain. Truck Diesels (made by Cummings) and bus Diesels (by GM) have excellent service records.

The mounting popularity of marine Diesels is well known; the war is proving a powerful stimulant towards further expansion in this field. While major growth is assured for the duration, sales immediately after the war will naturally fall off considerably when this abnormal stimulus is removed. The longer range outlook is nevertheless promising.

The railroad field has developed rapidly as a major market for Diesels during the past decade. While in 1934, orders for Diesel locomotives made up only 20% of the total of locomotives purchased, the percentage in 1941 was 76 and today probably is still higher. Diesel power has proved its superiority over steam, especially in switching engines, freight locomotives and high-speed passenger locomotives on long runs. Long-term growth possibilities are outstanding, considering the outlook for sustained heavy demand for locomotive power by our railroads. Electro-Motive Corp., subsidiary of General Motors, pioneered the Diesel locomotive and has consistently dominated the market. But Baldwin Locomotive and American Locomotive have also aggressively sought this business, in recent years, with marked success notably in the switcher classification. Prospects point to an average demand in excess of 1000 locomotives annually for several years which in turn should mean substantial profits for these companies.

The use of Diesels in contractor's equipment such as shovels, compressors, road machinery, excavators, bulldozers, etc., has been steadily growing and large sales in recent years indicate the importance of this

(*Please turn to page* 97)

DIESEL APPLICATIONS
in thousands of Horsepower

	Up to 1941	In 1941
Marine, incl. U. S. Navy	2,886	955
General Industry	4,443	695
Public Utility	510	16
Municipal Light & Power	835	95
Tractors & contractors machy., incl. tanks	4,497	1,750
Railroads	607	450
Trucks	645	310
Buses	178	250
TOTAL	14,601	4,521
Export	733	75

(Source: Diesel Power & Transportation)

Clues to Dividends and Prices

—From Third Quarter Earnings

BY H. F. TRAVIS

RELATIVELY few earnings reports for the September 30 quarter and the first nine months of the year have been issued up to this writing but those that have come to hand seem to confirm the trends envisaged on basis of mid-year reports. Third quarter results, in the majority, show further increases in net over last year but gains have narrowed markedly. Also, there has been in many cases a moderate decline from second quarter earnings.

While the available sample of reports is not sufficiently comprehensive to permit definite conclusions, known facts responsible for the aforementioned trends point to the probability that the third quarter showing as a whole is likely to conform to these general outlines, though exceptions may be numerous. The recessive earnings trend, compared with second quarter results, appears first of all to reflect the leveling out of production since late spring, in some instances accompanied by change-overs and consequent interruption of production schedules which militated agaist any further earnings gains.

Costs, too, have been on the upgrade, sometimes balancing lower tax charges due to more evenly applied tax provisions. Renegotiation was another factor affecting some company reports since repayments to the Government are often effected by lowering contract prices. Additional reports, from now on expected to come in thick and fast, will most likely throw further light on these matters; to date it is fairly obvious that greater irregularity in earnings trends must be expected.

As to group trends, a more representative picture must be awaited for final conclusions but on a preliminary basis, oils appear to have continued their earlier earnings uptrend. In steels, after an irregularly lower trend during the second quarter, emphasis seems to have shifted to the upside though marked irregularity persists. But on the whole, third quarters earnings held up fairly well. Where declines occurred, special factors were often responsible, notably change-overs or cutbacks of production schedules of only temporary import.

Further sampling in subsequent articles may well disclose greater irregularity than now apparent. In this connection it must be borne in mind that corporate policy of late has distinctly favored a general "cleaning up" of balance sheets and more liberal charges against income whenever possible or permissible under-tax laws. This, among other things, may also affect dividend policy. While the season for year-end disbursements is close at hand, prospects do not point to an overgenerous policy in view of existing uncertainties. General policy seems to "play safe," to strengthen resources as much as possible and conserve funds against the day of reconversion. Then, too, there exists some conflict of ideas between big and little stockholders. The former, mindful of high income taxes, is perfectly content to have dividends kept low. The later would welcome higher dividends to help defray his swollen living expenses This conflict may turn out to have an important bearing on final dividend determination but so far there is little evidence pointing (*Please turn to page* 104)

COMPANIES SHOWING INCREASED EARNINGS

	Per Share Third Quarter 1943	1942
Acme Steel	$1.47	$1.08
Castle Co. A. M.	.51	.39
Cont. Baking	.35	.27
Goebel Brewing	.14	.10
McKesson & Robbins	.70	.48
Am. Tel. & Tel., and Subs. (3 mos. Aug. 31)	2.38	2.11
Underwood Elliott Fisher	.72	.68
Container Corp.	.68	.65
Kimberly Clark	.88	.84
Allegheny Ludlum Steel	.79	.68
Keystone Steel & Wire	.31	.25
Lehn & Fink	.24	.21
Plymouth Oil	.54	.43
MacAndrews & Forbes	.39	.33
United Corp.	.42	.35 (on Pref)
Nine Months		
Atlantic Refining	$1.86	$0.40
Caterpillar Tractor	3.16	2.27
Sutherland Paper	1.89	1.61
Pacific Mills	3.37	2.96
Bayuk Cigar	2.60	2.06
Woodward Iron	2.51	1.84
Magma Copper	1.17	1.11
United Cigar-Whelan Stores	10.97	8.42 (on Pref)
Dupont	3.49	3.31
Mathieson Alkali	1.08	.82

COMPANIES SHOWING DECLINE IN EARNINGS

	Per Share Third Quarter 1943	1942
Howe Sound	$0.65	$0.74
Am. Brake Shoe	.77	.81
Transue & Williams	.50	.52
Barker Bros.	.22	.52
Dow Chemical (Aug. 31 quarter)	1.26	1.66
Johns Manville	1.18	1.23
Nine Months		
General Cigar	$1.48	$1.55
Industrial Rayon	1.58	1.98
N. Y. Air Brake	2.67	3.53
Heller W. E. & Co.	.94	1.16

On the Industrial Front

Government ownership of foreign petroleum fields may become part of U.S. world petroleum policy. This is suggested in interested quarters as a result of recently circulating rumors that the Federal Government is negotiating with California Arabian Standard Oil Co. for a participating interest in the development of the latter's resources in Saudi Arabia.

While no confirmation is available, speculation immediately developed that the Government, operating through the Petroleum Reserve Corp. might elect to become a direct owner in foreign countries to minimize the danger of expropriation or expulsion of American oil interests in peace time. Appointment of a petroleum attache by the State Department for assignment to the Near East is another angle to the broadening world petroleum picture.

Incidentally, lack of adequate refining facilities is the chief stumbling stone to more extensive use of Middle Eastern petroleum in the war effort. Interest now centers in a major refinery project to handle planned production increase from wells in Saudi Arabia, Bahrein and Auweit which might bring the total to 100,000 barrels daily. To achieve both would acquire a year or more; meanwhile Allied needs will have to be supplied largely from the Western Hemisphere.

Decision on higher domestic crude oil prices may be expected very shortly from the Office of Economic Stabilization, according to a group of congressmen who recently discussed the matter with stabilization director Vinson, but there is no inkling what the decision might be. Congress indicated that it is about ready to take matters into its own hands. Temporarily, the issue rests with Vinson who is studying new data.

Current railroad problem "How can we crowd them in" after the war is expected to give way to the more acute question "How can we keep them in". Preparing for this, the Pullman Co. is already experimenting with "coach sleepers" to accomodate the lower budget travel market. It is also devising a "duplex roomette" car with accomodations "like a traveling hotel room" for the better heeled customers.

The entire commercial vehicle industry, its parts and accessories suppliers and sales and service organizations will be energized to new activity during the coming months through extensive civilian truck manufacturing schedules laid down by WPB for the coming year.

First of such vehicles to be made for civilian use since Pearl Harbor have been authorized, calling for output of 47,919 new trucks and trailers during the first half of 1944. This number may be increased beyond 75,000 later on.

Currently reported excess of certain strategic raw materials is not so much due to improvement in the supply situation but to lack of manpower for their fabrication hence it is an illusion to assume that a balance has been reached between supplies and actual needs. Resultant hopes that some of the supposed excess materials will be diverted to expand civilian production may therefore prove shortlived. Such a prospect may disappear as soon as the manpower problem is licked.

Thus there is currently no shortage of rubber yet civilian tires are not in sight for lack of labor in the tire factories. And while supply and consumption of copper has reached a rough balance, this is largely due to the existing manpower problem in brass mills.

Those fantastic dreams of tear-drop design, rear-engine cars, made of "super" materials with curved glass tops and plastic bodies definitely belong to the next decade, according to some realistic predicting recently done by the Society of Automotive Engineers. They agreed that early post-war automobiles will resemble pre-war autos as closely as 1942 models did 1941's.

Vertical or forward tilting windshields with sun-visor tops and elimination of radiator grills are possible changes. But many years will pass, they say, before evolution brings radical changes in styling and the mechanical perfection sometimes so glowingly envisaged.

More efficient engines will come within two or three years and small, air-cooled high compression motors burning 90 octane gasoline (instead pre-war 70 octane) are predicted. But steel will remain the basic material. Because of higher taxes and labor costs, prices will be 25% to 35% above pre-war schedules.

A chance for a showdown on the right of railroads, steamship and bus lines to enter the air transport field will be given those carriers during the forthcoming hearings on the Bulwinkle resolution to amend the Civil Aeronautics Act.

The hearings will be watched closely for indications of a change in official policy which so far is reported opposed to railroads entering air transportation. Basically, ICC's attitude is said to be leaning towards railroad consolidations rather than their transformation into general transportation companies, allegedly a post-war goal of many railroads.

Rumor has it that another large copper concern may become interested in light metals to offset a competitor's stake in magnesium. Since Anaconda and Phelps Dodge are already engaged in magnesium fabrication, this would point to Kennecott. So far, however, the former's activities are exclusively carried on in Government-owned plants.

Severity of civilian shortages will soon be examined by means of an extensive door-to-door survey to be undertaken by the Office of Civilian Requirements in an effort to find the spot where the war hit civilian economy hardest. The survey will be nothing if not thorough.

Interviewers will guide householders through 21 page questionnaires, dealing with a long list of specific consumer goods. OCR hopes that the results will be a potent weapon when the agency pleads the civilian case before other claimant agencies for materials allocations next year.

Despite half a dozen sporadic strikes, the steel industry is currently staging a production blitz in an effort to boost weekly output to an all-time high of 1.8 million tons. Since Pearl Harbor, around 163,000,000 net tons of raw steel have poured from the nation's steel mills to meet the unceasing demands of war.

Brazilian built trainer planes will be powered with Brazilian built airplane engines under a contract recently signed between the Brazilian Government and the Fairchild Engine and Airplane Co. Under the agreement, a new engine factory will begin production under Fairchild license of six-cylinder air-cooled motors.

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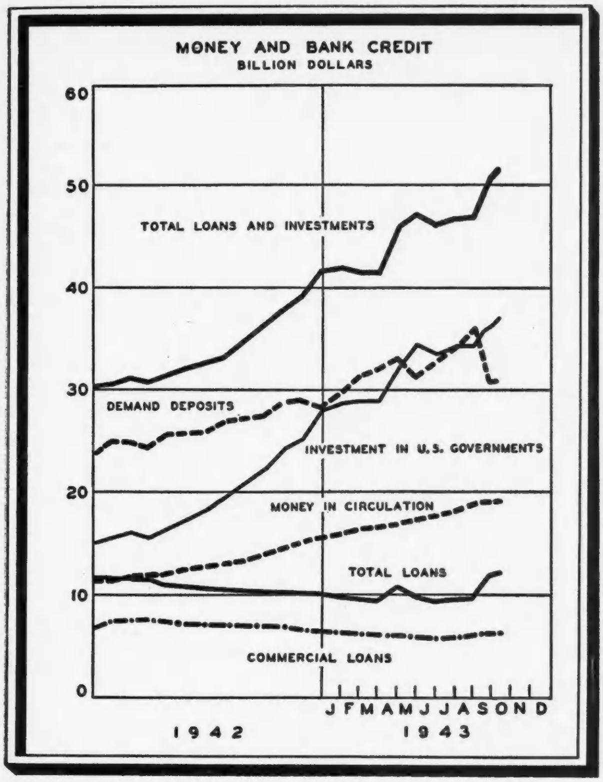

CONCLUSIONS

MONEY AND CREDIT—About one-third of the nearly $19 billion subscribed to the Third War Loan was financed indirectly through bank credit, with probably less than a half billion contributed by hoarders of cash.

TRADE—Department store sales for four weeks ended Oct. 9 only 5% above last year, against a 12% gain for year to date.

INDUSTRY—Overall business activity now 3% under the year's peak. War activities absorbing 70% of our total industrial output.

COMMODITIES—Despite threat to living costs posed by continued advance in grain prices, the farm bloc still opposes all controls the while organized labor demands yet higher wages.

The Business Analyst

Most components of this publication's business index, with the notable exception of steel operations, have been sagging slowly during the past six weeks; but a bulge in the bank debits component during September, occasioned by heavy private subscriptions to the third war loan, prevented this index from reflecting the deterioration in its industrial components. With the war loan drive out of the way, bank debits have contracted to a volume in keeping with the amount of **business activity,** so that the entire recession of the past six weeks has been uncovered in the past fortnight through a sharp drop of nearly four points in the overall index.

* * *

The rather mild recession in business activity of recent weeks is apparently attributable in part to a sharp tapering off in war plant construction, diversion of workers to meet agricultural needs, induction of men into the armed forces faster than they can be replaced by women workers, and strikes and slow-downs by union labor. A few coal mines have already been closed by strikes following return of all mines to private operation and, in at least one instance, this has necessitated the closing of a steel mill. With approach of the deadline, October 31, for expiration of the existing coal mine labor truce the problem of **fuel**

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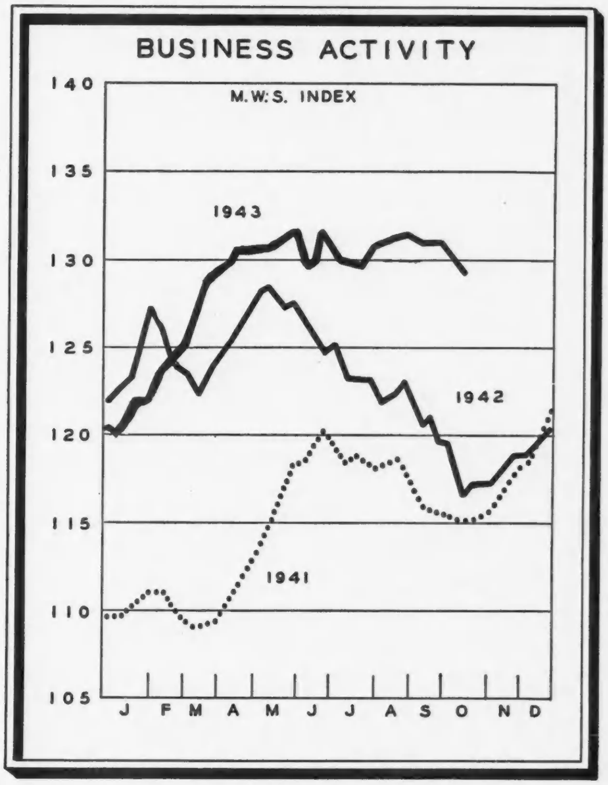


Inflation Factors

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
FEDERAL WAR SPENDING (ff) $b	Oct. 13	1.52	1.85	1.23	0.43
Cumulative from Mid-1940	Oct. 13	134.5	133.0	52.5	14.3
FEDERAL GROSS DEBT—$b	Oct. 13	161.0	160.4	87.1	55.2
MONEY SUPPLY—$b					
Demand Deposits—101 Cities	Oct. 13	30.7	30.3	28.2	24.3
Currency in Circulation	Oct. 13	19.0	18.9	13.9	10.7
BANK DEBITS—13-Week Avge.					
New York City—$b.	Oct. 13	4.79	4.90	3.70	3.92
100 Other Cities—$b.	Oct. 13	7.33	7.37	5.90	5.57
INCOME PAYMENTS—$b (cd)	Aug.	11.66	11.75	9.55	8.11
Salaries & Wages (cd)	Aug.	8.46	8.37	6.86	5.56
Interest & Dividends (cd)	Aug.	0.47	0.86	0.44	0.55
Farm Marketing Income (ag)	Aug.	1.77	1.54	1.41	1.21
Includ'g Govt. Payments (ag)	Aug.	1.85	1.58	1.43	1.28
CIVILIAN EMPLOYMENT (cb) m	Sept.	52.5	53.9	52.4	50.2
Agricultural Employment	Sept.	11.3	12.0	10.2	9.0
Employees, Manufacturing	Aug.	16.2	16.1	15.0	13.6
Employees, Government	Aug.	5.9	5.9	5.3	4.5
UNEMPLOYMENT (cb) m	Sept.	0.8	1.0	1.7	3.9
FACTORY EMPLOYMENT (lb4)	Aug.	170	170	157	141
Durable Goods	Aug.	230	229	193	168
Non-Durable Goods	Aug.	122	122	124	120
FACTORY PAYROLLS (lb4)	July	315	317	243	189
FACTORY HOURS & WAGES (lb)					
Weekly Hours	Sept.	45.0	44.4	42.4	40.3
Hourly Wage (cents)	Sept.	96.5	96.3	89.2	78.1
Weekly Wage ($)	Sept.	43.43	42.76	37.80	32.79
PRICES—Wholesale (lb2)	Oct. 9	102.8	103.0	99.8	92.2
Retail (cdlb)	Aug.	133.4	133.9	126.0	116.1
COST OF LIVING (lb3)	Aug.	123.2	123.8	117.5	110.2
Food	Aug.	137.2	139.0	126.1	113.1
Clothing	Aug.	128.9	128.6	125.2	113.8
Rent	Aug.	—	—	108.0	107.8
RETAIL TRADE					
Retail Store Sales (cd) $b	Aug.	4.92	4.94	4.62	4.57
Durable Goods	Aug.	0.76	0.78	0.85	1.07
Non-Durable Goods	Aug.	4.15	4.16	3.77	3.47
Chain Store Sales (ca)	Sept.	179	184	183	151
Dept. Store Sales (rb) (l)	Sept.	131	142	123	116
Dept. Store Stocks (rb2)	Aug.	114	110	137	95
MANUFACTURERS'					
New Orders (cd2)—Total	Aug.	273	272	233	212
Durable Goods	Aug.	403	420	334	265
Non-Durable Goods	Aug.	190	176	167	178
Shipments (cd3)—Total	Aug.	257	249	212	183
Durable Goods	Aug.	348	346	270	220
Non-Durable Goods	Aug.	185	173	167	155
BUSINESS INVENTORIES—$b					
End of Month (cd)—Total	Aug.	27.6	27.1	29.1	26.7
Manufacturers'	Aug.	17.6	17.4	17.4	15.2
Wholesalers'	Aug.	3.9	3.8	4.3	4.6
Retailers'	Aug.	6.1	5.9	7.4	6.9

PRESENT POSITION AND OUTLOOK

(Continued from page 9)

supply again becomes **critical.**

* * *

Total civilian **employment** in September was 100,000 greater than a year earlier, with **unemployment** down to 800,000 the lowest on record; but non-agricultural employment was a million less than in September, 1942. In an effort to help relieve the manpower shortage, the Army has cuts its civilian force by 10% through improved job techniques and thinks that private industry can also improve its labor efciency. Some Washington officials believe, with considerable justification, that a major difficulty is **maldistribution.** There is, for example, a shortage of 92,000 workers in California; but a net surplus of 182,000 in Texas.

* * *

Backlogs of new orders on the books of manufacturers of durable goods at the end of August were 2% below last year, with all major divisions reporting declines, except electrical machinery which was up 26%.

* * *

Department store sales in the four weeks ended Oct. 9 were only 5% above the like period in 1942, compared with a cumulative increase of 12% for the year to date.

* * *

According to the Commerce Department, **cash dividends** declared in September were 4% more liberal than in the like month of 1942. Thus third quarter declarations were a trifle larger than last year, while the total for nine months was off slightly less than 1%

* * *

The Treasury announces that subscriptions to the **Third War Loan** topped the initial goal of $15 billion by nearly $4 billion, with sales to individuals totaling $5.3 billion compared with the $5 billion goal. An analysis of banking statistics for the period suggests that about a third of the nearly $19 billion total subscription was facilitated indirectly by extension of bank credit, with probably less than a half billion dollars contributed by hoarders of cash.

* * *

Washington officials continue to voice apprehension over the explosive possibilities of private savings. Before the war, New Dealers urged people to spend and not save. Now they want to confiscate, or prevent, savings through higher taxes lest savings be spent too fast when the war is over. The mere thought of **saving**—before, during, or after the war—makes a New Dealer see red. The old fashioned word, "savings," has been re-named, **"inflationary gap"**; but it is still the same bugaboo, nurtured by suppositions which find little support in fact.

PRODUCTION AND TRANSPORTATION

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
BUSINESS ACTIVITY—I—pc	Oct. 9	129.1	130.8	117.6	118.2
(M. W. S.)—I—np	Oct. 9	156.1	158.0	142.5	139.5
INDUSTRIAL PRODUCTION (rb3)	Sept.	243	241	208	174
Durable Goods, Mfr.	Aug.	305	302	258	215
Non-Durable Goods, Mfr.	Aug.	143	145	140	141
STEEL INGOT PRODUCTION (st)m	Sept.	7.49	7.56	7.06	6.96
Cumulative from Jan. 1	Sept.	66.29	58.80	63.97	75.69
ELEC. POWER OUTPUT (K. W. H.)m	Oct. 9	4,342	4,359	3,702	3,369
ENGINEERING CONSTRUCTION AWARDS (en) $m	Oct. 14	73	38	158	93.5
Cumulative from Jan. 1	Oct. 14	2,599	2,561	7,856	5,692
PETROLEUM—bbls. m					
Crude Output Daily	Oct. 9	4.39	4.33	3.86	4.11
Gasoline Stocks	Oct. 9	69.70	70.13	77.41	87.84
Fuel Oil Stocks	Oct. 9	66.58	66.41	78.84	94.13
Heating Oil Stocks	Oct. 9	41.30	40.90	46.16	54.85
CARLOADINGS—t	Oct. 9	906	911	909	833
Grain	Oct. 9	60	53	51	43
Coal	Oct. 9	179	179	167	150
Manufacturing & Miscellaneous	Oct. 9	401	407	433	379
Mdse., L. C. L.	Oct. 9	103	102	93	156
Ore	Oct. 9	81	85	79	36
GENERAL					
Bituminous Coal Prod. (st)m	Oct. 9	12.05	12.10	11.66	10.80
Lumber Production (bd. ft.)m	Oct. 9	604	615	704	632
Paperboard, New Orders (st) t	Oct. 9	125	132	118	132
Whiskey, Production (tax gals.) m	Aug.	0	0	5.75	11.83
Do., Withdrawals	Aug.	4.76	4.64	10.14	8.14
Do., Stocks (End Mo.)	Aug.	412.3	418.5	507.5	505.6

PRESENT POSITION AND OUTLOOK

If expanding incomes were responsible for advancing prices, at a time when the supply of consumer goods is contracting, then one would expect inflation to start with retail prices and work back to products of the soil. But what do we actually find? Since Pearl Harbor, retail prices have advanced only 14%; but farm products are up 38%! Further light upon the true cause of inflation under war time conditions may be gained by observing that meanwhile wholesale prices of products other than farm products and food have risen only 4%. Explanation of this glaring discrepancy is rather obvious. It has been politically feasible to clamp rigid ceilings on **mine products**, but not on **farm products.**

* * *

The Federal Reserve Board has just announced an upward revision of nearly 20% in its index of **industrial production.** We print the revised overall index in the statistical column to the left; but repeat the old figures for Manufacturing for which revised data are not available at present writing. The upward revision accords greater recognition to production of war material which now absorbs about 70% of our total industrial output. In this issue we also present in the column to the left figures on **whiskey** production, withdrawals and stocks.

ag—Agriculture Dep't. b—Billions. ca—Chain Store Age, 1929-31—100. cb—Census Bureau. cd—Commerce Dep't. cd2—Commerce Dep't., Jan., 1939—100. cd3—Commerce Dep't., 1939—100. cdlb—Commerce Dep't. index (1935-9—100) using Labor Bureau & other data. en—Engineering News-Record. I—Seasonally adjusted index, 1923-5—100. Ib—Labor Bureau. Ib2—Labor Bureau, 1926—100. Ib3—Labor Bureau, 1935-9—100. Ib4—Labor Bureau, 1939—100. m—Millions. mpt—At Mills, Publishers & in Transit. np—Without compensation for population growth. pc—per capita basis. rb—Federal Reserve Board. rb2—Federal Reserve Board, adjusted index, end of Mo., 1923-5—100. rb3—Federal Reserve Board adjusted index, 1935-9—100. st—Short tons. t—Thousands. tf—Treasury & R. F. C.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

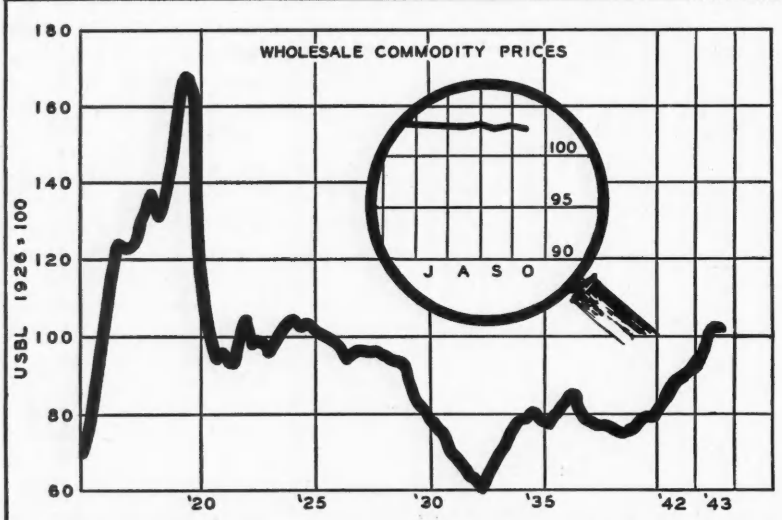
No. of Issues (1925 Close—100)	Oct. 2	Oct. 9	Oct. 16	Oct. 23
	1943 Indexes			
273 COMBINED AVERAGE	83.2	80.2	80.9	81.6
3 Agricultural Implements	141.3	134.4	139.8	139.8
9 Aircraft (1927 Cl.—100)	139.3	137.3	136.7	137.9
5 Air Lines (1934 Cl.—100)	481.0	459.9	460.7	462.1
5 Amusement	72.9	68.0	68.7	68.6
12 Automobile Accessories	122.7	119.6	121.5	119.3
13 Automobiles	17.9	17.1	17.1	17.2
3 Baking (1926 Cl.—100)	13.7	13.2	13.3	13.5
3 Business Machines	182.2	180.5	172.3	175.0
2 Bus Lines (1926 Cl.—100)	86.4	81.5	86.1	85.3
5 Chemicals	181.1	177.0	175.0	180.3
13 Construction	34.4	33.2	33.9	34.0
5 Containers	232.1	221.2	228.5	228.3
8 Copper & Brass	70.3	68.2	67.8	69.0
2 Dairy Products	39.6	39.1	39.7	39.6
6 Department Stores	31.0	28.8	29.1	29.5
5 Drugs & Toilet Articles	84.3	80.3	81.4	82.6
2 Finance Companies	220.2	215.7	211.8	215.1
6 Food Brands	122.4	121.0	122.4	123.0
2 Food Stores	45.9	45.1	46.2	46.8
4 Furniture	62.5	59.3	60.0	59.0
3 Gold Mining	1000.7D	921.7	919.7	912.8
6 Investment Trusts	35.1	34.2	34.3	34.2

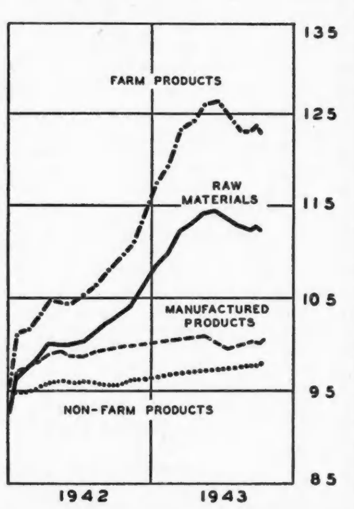
(Nov. 14, 1936 Cl.—100)	Oct. 2	Oct. 9	Oct. 16	Oct. 23
100 HIGH PRICED STOCKS	64.67	62.84	63.45	63.80
100 LOW PRICED STOCKS	79.09	75.83	76.65	76.99
3 Liquor (1932 Cl.—100)	278.4	268.6	268.2	284.3
8 Machinery	103.5	101.3	103.1	106.5
2 Mail Order	86.1	82.1	83.9	84.4
3 Meat Packing	60.6	57.7	57.9	56.9
10 Metals, non-Ferrous	138.8	130.1	130.2	131.2
3 Paper	13.0	12.3	12.7	13.1
21 Petroleum	130.4	128.3	130.6	128.3
18 Public Utilities	51.9	49.9	49.7	52.8
3 Radio (1927 Cl.—100)	22.6	21.3	21.6	21.4
7 Railroad Equipment	47.7	45.6	47.4	47.4
17 Railroads	15.7	15.3	15.5	15.1
2 Shipbuilding	73.9	77.6	80.8	77.8
3 Soft Drinks	313.1	305.8	304.5	312.2
12 Steel & Iron	70.9	68.4	70.0	71.0
2 Sugar	38.6	39.6	39.5	41.4
2 Sulphur	174.7	171.0	174.8	169.7a
3 Telephone & Telegraph	107.4	104.6	108.6	110.6
3 Textiles	51.6	48.4	48.8	49.6
3 Tires & Rubber	27.1	26.3	26.3	26.6
4 Tobacco	63.6	59.9	60.6	60.0
2 Variety Stores	230.7	220.7	218.0	216.3
20 Unclassified (1942 Cl.—100)	169.8	163.0	161.5	164.6

D—New HIGH since 1939. a—New LOW this year.

Trend of Commodities

Prices of farm products have continued to advance during the past fortnight under leadership of grains. Since our last issue wheat has risen to a 15-year, and oats to a new 23-year, high. It is reported that OPA is "working on" ceilings for wheat; but, pending definite action on this, or subsidies to processors, millers have ceased purchasing wheat and withdrawn flour offerings, because the price of hard wheat has risen at least 10 cents above levels they could pay while selling flour at present ceiling prices. OPA hesitates to attempt further ceilings on grain, owing to the fiasco in corn ceiling experiments. It is admitted that black markets in corn are growing. Supplies on the Eastern Seaboard are nearly depleted. Several offers are coming from Minneapolis for New York delivery in carload lots at $1.63¼, 33% above the ceiling price, and small lots of corn are bringing up to $2.00. Despite importations of wheat from Canada, 1943 supplies of the five leading feed grains—corn, oats, wheat, barley and grain sorghums—will barely suffice to meet demand, and the situation next year will be tighter. In spite of the inflation danger caused by a disproportionate rise in farm prices, the farm bloc is still determined to defeat the Administration's subsidy program to hold down living costs. Seeing this, organized labor is also demanding yet higher pay.

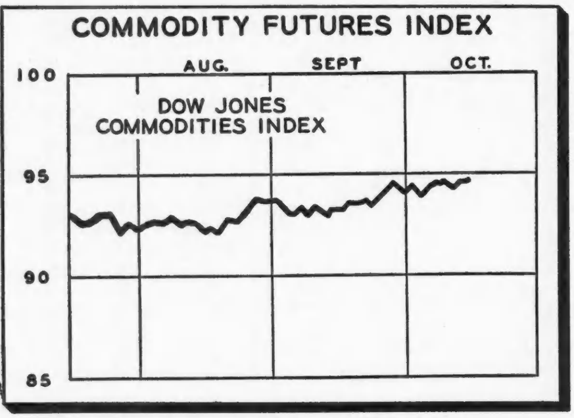




U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES

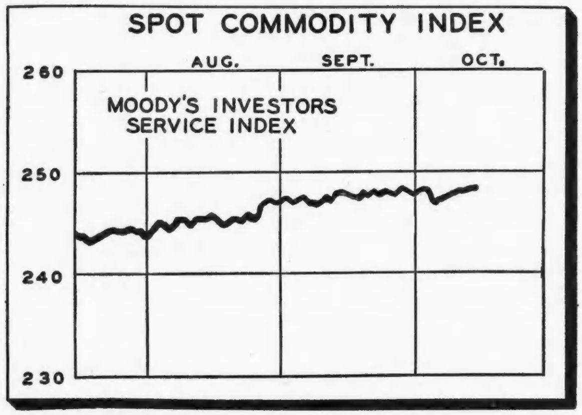
Spot Market Prices—August, 1939, equals 100

	Date Oct. 16	2 Wk. Ago	Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	Dec. 6 1941
28 Basic Commodities	178.3	178.1	178.1	176.0	176.7	169.6	156.9
11 Import Commodities	167.1	167.4	167.7	167.7	168.1	163.0	157.5
17 Domestic Commodities	186.0	185.5	185.2	181.8	182.5	173.9	156.6
7 Domestic Agricultural	217.9	216.7	216.6	209.1	209.1	184.5	163.9
12 Foodstuffs	205.0	205.2	204.2	199.3	201.4	189.9	169.2
16 Raw Industrials	160.4	160.6	160.5	160.2	160.0	155.6	148.2



Average 1924-26 equal 100

	1943	1942	1941	1940	1939	1938	1937
High	94.56	88.88	84.60	64.07	64.67	54.95	82.44
Low	88.45	83.61	55.45	48.74	46.50	45.03	52.03



15 Commodities, December 31, 1931, equal 100

Copyright by Moody's Investor Service

	1943	1942	1941	1940	1939	1938	1937
High	249.3	239.9	219.9	171.8	172.3	152.9	228.1
Low	240.3	220.0	171.6	149.3	138.4	130.1	144.6

Preparing Industry for Peace

(*Continued from page 73*)

various Government agencies concerned. As to contract termination, industry justly calls for establishment of a contract settlement board, simplification and unification of procedure and earliest clarification of all points still in doubt. It is up to Congress to work in this direction. Industry after all needs a concrete basis to work on, and many vital points are still hanging fire. Take for instance the important matter of inventory losses, of utmost importance if one considers the huge size of war production inventories, estimated between $10 and $15 billion. So far no modus operandi has been established and the only straw in the wind is a tendency of procurement agencies to discourage inventories exceeding sixty days requirements, coupled with dark hints that no favorable consideration can be expected of losses on inventories exceeding this limit.

In the foregoing, we have largely dealt with more immediate problems. There are others, no less vital, but as it looks now, their solution will probably have to await the end of the war or such a time when the end is clearly in sight. We are referring to the complexities of war-time integration of industry and disposal of Government-owned plants. The former revolves around the hopeless scrambling of private and Government-owned facilities and machinery. Their divorce, with anything like a fair settlement between business and Government is going to be extremely difficult and time-consuming. To unravel the scramble, action must be thoroughly planned and coordinated all down the line if a hopeless tangle is to be avoided. It is likely to be a tremendous headache for Government and industry alike and threatens the biggest delay in reconversion. In many industrial centers there is not even enough storage space to hold Government-owned machinery which must be removed from plants before reconversion can be undertaken. Significantly, the steady grist of news and views so far has remarkably little to say on this subject, indicating relatively little forward planning to date.

As a corollary of reconversion, there also arises the question of disposition of surplus Government goods and materials, estimated by some as high as $50 billion when the war ends though the actual figure is likely to be much lower. Washington is hearing quite a bit on this subject these days and getting plenty of advice. Spokesmen for business see eye to eye with Government on the need for disposing of the bulk of these supplies but they urge that distribution must be timed in a manner that will not disturb trade. Indications are that Congress will insist on adequate controls over the flow of these surpluses into consumptive channels and judging from opinions expressed on both sides, there should be not particular difficulty in bringing about a meeting of the minds. The unsettling effects of haphazard dumping after the last war are too fresh in the memories of all. But apart from that, the surplus problem promises to be even less troublesome considering the probability of a gradual rather than sudden demobilization, possibly extending over several years. This alone should go far towards preventing post-war market gluts such as experienced after 1918.

The over-all outlook thus appears to promise rapid crystallization of renegotiation and reconversion policy on the part of Government with trends pointing to a cooperative but at the same time quite realistic attitude of the latter. While windfalls of any kind seem to be out, recent Treasury proposals point to Government recognition of the problems confronting industry, and willingness to help in their solution.

The larger problem, that of disposition of Government facilities, on the other hand goes much deeper. Chances are that it will be with us for a long time to come.

NOTE—*From time to time, in this space, there will appear an advertisement which we hope will be of interest to our fellow Americans. This is number two of a series.*

SCHENLEY DISTILLERS CORP.,
NEW YORK

"Are Blenders People?"

We were extolling the virtues of a friend recently, a famous blender of fine whiskies. We spoke of his extraordinarily acute sense of taste and smell, and how difficult it was to fool him in a test. Perhaps we got off a little bit on the enthusiastic side, because one man in our party asked, "Are Blenders People?" Well, there could be but one answer to that. Yes, blenders are people—but they are unusual people.

Nature has endowed us all with certain senses: feeling, hearing, seeing, smelling and tasting. And we are all pretty good at all of these senses, but once in a blue moon nature endows a man with unusual talents of taste and smell. If he is smart he recognizes these extraordinary talents and becomes a blender, either in the food field, or in the beverage field.

Take a blended whiskey for instance. The expert blender with that highly developed sense of smell and taste gets busy. Of course, first of all, he must have a considerable "library" of various types of whiskey, each possessing certain dominant characteristics such as flavor, color, body, aroma, tartness, mellowness, etc., etc. With these stocks he can work out any number of combinations.

To make a palatable blend his "ingredients" must be compatible, must get along together.

And proper sequence is of the utmost importance. Take three whiskies, No. 1, No. 2, and No. 3, and blend them together in that order, and you get a very unsatisfactory end-product. But if you blended No. 1 and No. 3, and then added No. 2 you might end up with a product which would make you say, "Gee, this is a fine drink of whiskey." So, you see, there is skill and science and unusual talent required in the blending of whiskies. To be sure, expert blenders are rare. And blending is a lucrative profession which you cannot prepare for in college.

Think of this, won't you, the next time you smack your lips over your drink of fine blended whiskey?

Yes, blenders are people—unusual people. And they get a great deal of pleasure out of their contribution to gracious living. *MARK MERIT*

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities.*
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. If not now a paid subscriber use coupon elsewhere in this issue and send check at same time you transmit your inquiry.

Special rates upon request for those requiring additional service.

Savage Arms

Kindly give your reasons why one should or should not buy Savage Arms at present market price.—E. F., Monmouth, Illinois.

Savage Arms Corporation is one of the largest domestic manufacturers of small arms. Products include shotguns, rifles and target pistols sold under the principal trade names of Savage and Stevens. During normal times, when military demand is small, most of the output is sold to farmers and sportsmen. The company in peacetimes also manufactures washing machines, ice cream cabinets and dry cleaning machinery, but these products are said to have contributed little to sales and earnings.

This company has no funded debt, its sole capitalization consisting of 670,850 shares of common stock with a par value of $5. The common stock was split 4 for 1 in May, 1941. The company earned $2.45 a share in 1942 as compared with $.11 in 1941. In the pre-war years of 1936 to 1939, inclusive, the highest earned was 68 cents a share and the lowest was 9 cents a share, giving effect to the 4 for 1 split-up. The price range of the stock this year has been: high 12½; low 7; last 8. In paying $8 for this stock, this is equivalent to $32 for the old stock. In our opinion, the stock has no appeal because of the company's poor post-war outlook. We think your funds could be used more advantageously elsewhere.

P. Lorillard Rights

I own some P. Lorillard Tobacco stock and they are now offering rights to purchase additional shares at 14.

Do you advise a holder of this stock to exercise his rights and purchase the new common? Also, in your opinion what is the outlook of the Lorillard Co.? J. D., Camp Breckinridge, Ky.

Lorillard Company is an important manufacturer of all tobacco products except snuff, its output including a larger proportion of cigars and manufactured tobacco than any other leading concern. Profit margins are said to be widest on manufactured tobacco and more or less on cigars. Its cigarette brands include Beechnut and Old Gold.

Earnings this year will probably be somewhat smaller than $1.72 a share shown in 1942, which included a small post-war refund. The stock sold as high as 21½ this year and as low as 16¼, last 16½. The common stock appears fairly valued relative to early prospective earnings and as long-term prospects appear favorable, we counsel you to exercise your rights permitting you to buy the common stock at $14 per share.

General Outdoor Advertising Cum. "A" 4% Stock

Kindly give me your opinion of General Outdoor Advertising cum. A 4% stock as a businessman's investment. Kindly advise where this stock is listed in the present market.

I understand that before the war this company's earnings were very good, and most likely will be after the war. Have they been paying their 4% dividend?—E. F., Upper Darby, Pa.

General Outdoor Advertising Company was incorporated in 1925 in the State of New Jersey and its business consists principally of the publication of advertisers' copy upon advertising structure termed in the industry "poster panels," "painted bulletins" and "electrical bulletins" designed and located in such a way as to communicate the advertisers' messages to the circulation represented by persons passing in various modes of transportation upon main highways. The corporation and its subsidiaries maintain offices and shops in forty-one cities throughout the United States and own in fee about 235 parcels of real estate located in twenty-eight states and in the District of Columbia. It is the largest outdoor advertising system in the United States and is said to operate over 117,000 electrical signs, poster panels, bulletins, etc.

As of December 31, 1942, the *(Please turn to page 102)*

How To Increase Your Investment Income

(*Continued from page 67*)

the yield offered is denitely unattractive—especially after taxes.

Portfolio needs differ. Some can afford to take higher risks than others. Some have an imperative need for yield; and are willing to accept risks to obtain it. Others must have safety of principal even if it involves a lower return and a lower standard of personal living. Some, who are wealthy, have everything to lose and nothing worth-while to gain; others, who have accumulated little, have everything to gain and little to lose. It should be recognized that the security which is a logical purchase for one investor may be an equally logical sale for another. Most securities, however speculative, are "good" if bought at the right price; and no security, however high grade, is "good" if bought at the wrong time and at the wrong price. Nothing can be said in this study, so far as individual issues are concerned, which will be equally applicable to every reader.

To supplement this text there are presented two lists of securities. One illustrates some very low yields, listing issues which probably should not be held by those who are pressed for income. The other illustratees some better-than-average yields, and is designed for the purpose of showing that a good return still is available in certain issues if one is willing to sacrifice part of the safety factor.

Other things being equal, the low-yield list will fluctuate less in price than the high-yield list. On the other hand, the high-yield list has a wider chance to improve in quality; the high-yield group already has "arrived" at quality. To put it another way, the high-yield list has *more room* to appreciate, and the low-yield list has *more room* to depreciate.

Normally, especially in the case of stocks, a low yield suggests the possibility of a higher dividend and a high yield suggests the possibility of a lower rate of disbursement to stockholders. Under present tax conditions, however, the outlook for dividend increases is not especially favorable even in the "growth" issues. Under present conditions, too, chances of dividend reductions, except in war industry issues, are little less than often has been the case.

It is only fair to say that some of the issues included in the high-yield list have been selling in the market to offer a high return for a long, long time; and that some of the low yield issues (among the stocks) have been in the low—and lowering—yield category for years. The market has established certain attitudes toward security types whcih are unlikely to change overnight.

One last thought. Under current money market conditions, a

for the record...

ON THE SHOULDERS of the oil industry has fallen the responsibility of lubricating the country's industrial plants in a production program, the proportions of which completely outrun all pre-war conceptions of what could be done.... If one stops to consider that throughout this program the movement of every wheel and gear and the maximum efficiency of practically every manufacturing operation depends on proper lubrication, only then does the picture stand out in its true importance.... Some companies, such as Gulf, have had a generous share in the job that is being done. That in itself is incidental. The significant thing, however, is the fact that the oil industry, through research, through experience, and stimulated by the urgency of the task, is successfully meeting these undreamed of demands.

GULF OIL CORPORATION
GULF REFINING COMPANY

GULF INDUSTRIAL LUBRICATION

4½% yield is about as good as a 6% yield was 20 years ago. A 6% yield probably conforms with our former ideas of an 8% risk, and an 8% yield may not be far from our old ideas of 10% quality. These, of course, are dangerous guideposts to follow blindly. They are generalizations which do not always hold.

In making up the list of high-yield stocks an attempt has been made to eliminate issues thought to be plainly undesirable. It is hoped that the list is one composed of the more meritorious high-yield issues. The low-yield table is intended to be more suggestive than anything else.

Low-Priced Oils Compared

(*Continued from page* 76)

Richfield Oil stock and warrants and over 3,300,000 of the 4,000,000 shares of Venezuelan Petroleum. Sinclair produced 26,049,000 barrels of oil in 1942, has refineries in several states with total productive capacity of over 75,000,000 barrels a year, operates 6,400 miles of pipe lines which carried 95,000,000 barrels of oil in 1942, owns 21 tankers of 250,000 dead-weight tonnage and owns 6,500 tank cars, operates terminals on the Atlantic and Gulf Coasts and has 2,100 bulk and 9,500 service stations, with 25,000 other distributors. Its leases in many states and Mexico are on 207,000 acres of proven and about 2,000,000 acres of undeveloped lands.

Earnings have been affected in the past two years by chartering of its tankers by the Government and curtailment of its retailing because of gasoline rationing. Net in the first six months of 1942 was 76 cents a share against 65 cents in the first half of 1942. At the end of 1942, the book value of the stock was $21.38 per share. The current assets were $147,489,513, current liabilities $46,095,748, working capital $101,393,765. The stock has speculative merit in which South American producing properties figure prominently.

Socony-Vacuum is one of the three or four largest oil companies in the world. It is a result of the merger of the Standard Oil Co. of New York and Vacuum Oil Co., both of them until 1911 subsidiaries of the Standard Oil Co. of New Jersey. There is about $123,000,000 in funded debt and 31,178,323 shares of stock, par $15. The company has world wide activities, with many of its European and Far Eastern properties in the hands of the Axis now. Its crude oil production is through subsidiaries which have acreage of about 140,000 proven and over 8,000,000 acres undeveloped, in many states. Over 10,000 wells are producing, with 51,690,071 barrels net output in 1942. The numerous refineries of Socony-Vacuum have about 405,000 barrels daily capacity and the 1942 runs were 114,063,000 barrels. The pipe lines owned by the company carried 123,192,095 barrels of oil in 1942. Over 3,000 retail stations are owned and there are about 27,000 dealers carrying Socony-Vauum products. A large number of ships and other marine equipment are owned.

From official estimates, the indicated net for the first half of 1943 was 47 cents a share against 49 cents in the first six months of 1942. At the end of 1942, current assets were $308,564,754, current liabilities $74,492,056 and working capital $234,072,098. This high grade stock is low-price only because of large number of shares outstanding. Normally it is rather slow-moving.

Texas Pacific Coal & Oil has no bonds. Capital shares are 886,541, par $10. In addition to oil activities, the company has large real estate holdings and sells lands and leases, also it has an interest in paving bricks and clay products. It owns 71,958 acres of land in fee and has leases on 341,769 additional acres. The 1942 production of crude oil was 2,334,226 barrels net, with 918 wells producing oil or natural gas. It operates two absorption plants with 12,000,000 cubic feet of gas daily capacity and has a one-half interest in two other plants. Subsidiaries operate about 40 miles of pipe lines. Sales agencies for the company's branded products are in about 25 cities of Texas. Its producing lands are in Oklahoma, Texas, California, Montana and New Mexico.

Net earnings in the first half of 1943 were 55 cents a share against 46 cents in the 1942 period. The current assets at the end of 1942 were $1,513,527, current liabilities $348,580 and working capital $1,164,947. The stock is not without merit but looks pretty richly priced at present.

Tide Water Associated has funded debt of about $33,400,000, preferred stock 500,000 shares paying $4.50 dividends of no par value, and common 6,375,364 shares of $10 par. The preferred is convertible into 2 6/7 shares of common until July 1, 1944 then into 2½ shares until January 1, 1947. Mission Corp. owns 1,271,143 and Pacific Western Oil 250,100 shares of Tide Water common. This company is in all branches of the oil industry. It has over 106,000 acres of producing lands in a number of states, with over 5,800 wells. Undeveloped leases are on nearly 900,000 acres. The company operates 578 miles of pipe lines in Mid-Continent and has a one-half interest in 715 miles of other pipe lines. It operates 16 ocean tankers and many other ships, and owns 1,730 tank cars, with storage, terminals, a fleet of motor trucks and other vehicles. The refineries in several states have a total capacity of nearly 130,000 barrels daily. The 1942 crude oil production was 24,668,525 barrels and the runs to refineries 39,326,000 barrels. Reserves of oil are estimated at over 400,000,000 barrels. The company operates over 1,100 service stations and has a large number of other dealers selling its products.

In the first half of 1943, net earnings were 80 cents a share against 61 cents for the same period in 1942. As of December 31, 1942, current assets totalled $74,472,364, current liabilities $24,910,735 and working capital $49,561,629. Like Socony-Vacuum, this is a good grade oil stock low in price mainly because of substantial capitalization.

For Profit and Income

(*Continued from page 83*)

stocks presently priced anywhere from 5 to 22 points above call prices are Johns-Manville ($7) at 129; General Motors ($5) at 130; du Pont ($4.50) at 129; International Nickel ($7) at 133; A. & P. ($7) at 137; General Mills ($5) at 134; General Foods ($4.50) at 119; General Printing Ink ($6) at 110; Procter & Gamble ($5) at 120; and E. R. Squibb ($5) at 116.

Who Will Make Money in Diesels?

(*Continued from page 85*)

market. It should provide ever-expanding demand after the war when roadbuilding is expected to be resumed on an extensive scale. In this field, Caterpillar Tractor and LeTourneau lead all others.

The Diesel-engined airplane has been the object of experimentation for years. As in the case of the motor car, there have been numerous successful applications but quantity production is still a thing of the future. In the case of the airplane, it is a definite post-war prospect. Diesel power, with its safety, economy and long cruising range will soon propel huge ships now under development by our leading aircraft companies, carrying cargoes to the remote corners of the world. The radial light-weight engine developed by Guiberson appears especially suitable as aircraft power plants; the company is understood to conduct active research in this direction. Abroad, airplane Diesels have long been out of the laboratory stage; development here was slower since fuel economy, a prime factor, has so far been a lesser consideration.

On the other hand, Diesel power in ordinary passenger automobiles does not appear to be an early prospect. Thus far it could not be used without sacrificing flexibility, quite apart from the weight factor. However, research by now may well have overcome these obstacles. But the gasoline engine is likely to continue a formidable competitor. Other drawbacks are the problem of servicing and the need for motors with relative insensitivity to variations in fuel qualities.

This latter problem especially requires considerable further research. While the industry is highly optimistic about the future of the Diesel, it is admitted that today's engines are not the optimum. Efficiency, it is believed, can still be increased by 25% to 30%, a remarkable improvement.

Those familiar with the latest progress in Diesels, and what it means in terms of future application, agree that prospects have never been more promising. These, they feel, are only slightly dimmed by the problem of post-war disposition of surplus material. In view of the importance of Diesels to the war effort, the industry naturally has much at stake in any plan which eventually

7 miles high—and fighting on "bottled air"

At 35,000 feet above the earth the air has so little oxygen that neither man nor bird can breathe. So our fliers wear masks with feed lines leading to stainless steel oxygen tanks.

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Stainless steel, like other modern materials, is being put to terrific tests, on land, on sea and in the air. War-product manufacturers are rapidly learning how to do more with it and do it better. When peace comes, these same manufacturers will use this and other ARMCO *special-purpose sheet steels* to make new and better products for homes and industry.

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may be evolved to handle surpluses.

From the investors' standpoint, the important question is who is likely to benefit most from the growth trend in Diesels. There are about 70 companies in the U.S. engaged in their manufacture. The two biggest are General Motors and Caterpillar Tractor, with the former probably topping the list in the number of h.p. produced. General Motors has three Diesel divisions: one in Cleveland which makes marine engines only; another in Detroit where smaller models such as used in buses, trucks, tractors and tanks, and portable power units are made; the Electro-Motive division in LaGrange, Ill. makes complete Diesel locomotives and heavy Diesels for the Navy. Its locomotive backlog is currently about $105 million, representing some 359 locomotives of all types.

Caterpillar Tractor is probably the biggest in terms of units manufactured and specializes in tractor Diesels. There is little doubt that both these leaders will continue to head the procession. Fairbanks-Morse which recently enlarged its plant to meet rapidly mounting war demands, is third in importance. Normally, the company derives about one-quarter of revenues from the sale of Diesel engines of which it makes a wide variety for marine, farm, industrial and utility uses.

Cooper-Bessemer has important Government contracts for heavy marine Diesels and also handles heavy installations for war industries. Normally, the company manufactures a wide range of engines notably for marine, utility and locomotive purposes. Some time ago, it filled a large Russian order for 8-cylinder stationary Diesels. National Supply Co. makes Diesels principally for driving oil well drilling equipment; it may do well after the war when drilling activities revive. Waukesha Motor Co. specializes in heavy duty motors for tractors, buses, trucks, road and farm machinery; presently its output goes largely into mechanized army equipment. After the war, it faces a highly competitive field as does Hercules Motor Co., whose 4 and 6-cylinder Diesels serve mostly agricultural and industrial purposes. The latter, however, also makes portable power units for which growth prospects are believed best.

Clark Bros., a subsidiary of Dresser Manufacturing Co., supplies the oil and gas industries, water and sewage plants, electric and other industries. It recently completed a $8 million Russian order for supercharged 2-cycle engines (a relatively new development) for electric generation to replace war-damaged power facilities through widespread use of small Diesel units. As an outgrowth of its development work in the field of supercharging 2-cycle engines, Clark obtained a $3 million Government order for marine engines of a similar type. The company is likely to forge ahead in the field.

Worthington Pump makes mostly heavier types; its activity in the Diesel field, while important, is rather secondary with heavy machinery and equipment the principal products. Among the smaller but progressive companies showing much promise are the Buda Co. and Guiberson Diesel Engine Co., both previously mentioned in connection with the latter's radial air-cooled light-weight Diesel. By virtue of its adaptability to aircraft and automotive purposes, the Guiberson Diesel is believed to have an exceptional future; at present it is the only existing motor of its type (in the U.S.) and appears slated for immediate post-war application in cargo planes. The Buda Co., long active in the Diesel field, manufactures a well diversified range of engines which should place it in an excellent competitive position after the war. Currently, the company is concentrating on lighter models for tanks and heavy duty engines for diverse military work.

While all these companies are prominent in the field, in one way or another, their prospects solely on basis of their Diesel potential can hardly be evaluated with accuracy since, with few exceptions, Diesels do not constitute their only or leading product. Hence, earnings from Diesel manufacture are usually obscured. By the same token, it is of little practical value to say that conversion problems in the Diesel field are virtually nil. What investors or potential investors in Diesel manufacturing companies should watch are trends in Diesel application, as outlined in this article, and shifts in the relative importance of companies active in the field. The latter after the war may become more pronounced. So far, Diesel manufacture is rather heavily concentrated with a handful of large and old-established firms, simplifying the choice of mediums for the investor seeking a stake in the industry. Oldtimers, such as General Motors and Caterpillar Tractor will, of course, continue to lead but this prospect is largely discounted. The former can be expected to make an aggressive bid in all lines for its share in growing demand. Caterpillar is best situated to profit from the large deferred demand for farm tractors but the pressure of surplus equipment after the war may perhaps affect this particular field most of all.

Speculative opportunities appear to lie rather with the budding newcomers and those who by virtue of active research show promise of forging ahead. Dresser Manufacturing (through Clark Bros.); Guiberson and Buda are cases in point. Dresser, listed on the New York Stock Exchange, had been a consistent speculative favorite before the interruption in recent months of the major market advance and may be expected to meet with demand on any further reaction, in view of longer term potentials. Both Buda and Guiberson are unlisted, although the former has a fairly broad over-the-counter market in New York and Chicago. For Guiberson, which is a rather closely held corporation, there is a local market in Dallas, Tex.

Companies making portable power units also deserve attention as probably offering substantial growth prospects. By the same token, competition may heavily concentrate on this type of output once this trend is crystallized.

Stockholders Audit of the Aircrafts

(*Continued from page* 79)

million. Resources available for reconversion include working capital of $30.6 million (90% of total), contingency reserves of $6.87 million and $1.13 million consisting of post-war refund and other Government claims, a total of about $38.60 million. This compares with total assets of $131 million and current assets of $112 million. In 1939, the company's share of total industry volume was about one-ninth; in 1942 it came to one-tenth. 1939 earnings were $4.81 per share and $8.42 was realized last year. Maintenance of this share in post-war business would point to an annual volume of some $100 million or over 3½ times prewar. However, here too, higher costs must be reckoned with which tends to obscure any projection of post-war earnings. Again, the factor of reconversion costs is paramount but somewhat counterbalanced, in its net effect, by the absence of prior debt, affording considerable earnings leverage. Basically, the post-war outlook for Douglas is excellent and the company should retain its leading position in the transport field, potentially the most profitable after the war. Hence the demand potential calculated above is by no means excessive.

The position of Consolidated-Vultee can only be given in its main outlines as only an abbreviated pro-forma balance sheet has been published since the merger between Consolidated and Vultee, consummated last March. According to these data, as of November 30, 1942, combined cash holdings were about $56.93 million against current liabilities of $220 million. Net plant account stood at $14.92 million and sales for the 1942 fiscal year were $413 million against $6 million in 1939 while working capital expanded from $3.99 million to $14.70 million, far out of proportion with the huge spurt in sales. Consolidated-Vultee, through the merger, has become the second largest airframe maker in point of orders but its post-war potential is perhaps somewhat less predictable than in the case of other leaders. Specializng particularly in large airplanes, it is actively preparing for post-war production of huge transports and through intensive research can be expected to remain in the forefront of air transportation. Still the company has yet to find its niche in the post-war industry line-up. Resources available for reconversion amount to some $21.15 million compared with total assets of $260 million and current assets of $239 million.

Curtiss-Wright, one of the industry's leaders, has likewise made it a point to reduce its own plant investment which last year came to $12.28 only, or less than the 1939 figure. 1942 sales were $770 million against $48.6 million in 1939 while working capital during that period rose from $8.77 million to $49.42 million. Of current assets of $715 million, cash and U. S. Tax Notes amount to $214 million against current liabilites of $665 million. Inventories were $289 million or 40% of current assets. Resources available for reconversion, including special reserves of $15.22 million and a post-war refund of $7.99 million, total some $72.63 million; this compares with total assets of $756 million and current assets of $715 million. While finances are fully adequate for normal business, reconversion costs may well inject some strain since they may run high in view of the company's far-flung activities. However, Curtiss-Wright in this respect is in no worse position than most others. Being strongly entrenched in the entire aviation field, its post-war outlook, on the other hand, is above average. Pre-war volume accounted for about one-fifth of the industry total; its share in war output is about one-seventh of the aggregate done by the aircraft companies. If the company after the war can hold on to this percentage, it should do very well indeed from an earnings standpoint.

Boeing Airplane Co. on the whole has managed to strengthen its positon during the war. De-

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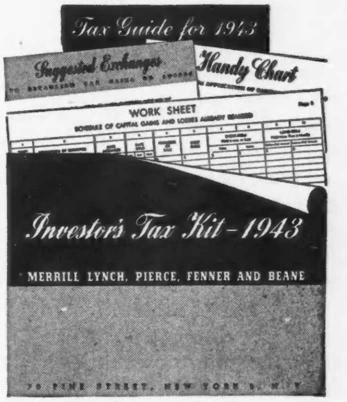

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spite vastly expanded volume, in 1942 amounting to $386 million against $11.9 million in 1939, net plant account was kept down to $5.30 million compared with $2.29 million in 1939. Working capital rose from $1.50 million to $19.44. Including post-war reserves of $7.81 million, resources available for reconversion amount to $27.25 million, compared with total assets of $136 million and current assets of $117 million. As in the case of most aircraft companies, the large proportion of current assets to total assets is noteworthy, reflecting great nominal liquidity and conservative plant valuation. Prominent as a maker of commercial transport planes before the war, Boeing's post-war outlook is promising but considerable competition must be reckoned with. Market action of the stock appears to have discounted this factor; the equity seems to have reached absolute bedrock, selling far below book value and even below net current asset value. Boeing's earnings record has been poor, due to heavy development expenses, thus future earning power may well be decidedly favorable measured against pre-war experience. Its post-war potential, however, is difficult to estimate.

From a statistical point of view, the showing of other leading companies such as Lockheed, Glenn L. Martin and North American Aviation Corp. is generally similar. Main characteristics are relatively small self-owned plant facilities, ranging anywhere from 10% to 15% of total facilities, and inordinately small working capital in relation to business done. Most companies have set aside special post-war reserves and have fair cash holdings but receivables and/or inventories in many cases are in excessive ratio to total current assets. Glenn L. Martin's inventories, for instance, are over half of current assets. While this is not particularly significant from a general point of view, it tends to stress the importance of the evolvement of a fair Government policy regarding post-war liquidation of war inventories.

From the viewpoint of market valuation, Aviation Corp. is an interesting example of market caution. The company's balance sheet differs little from the average pattern. Its investments in Pan American and Am. Airlines on basis of current market prices amount to some $14.8 million equal to $2.56 per share of Aviation Corp. stock. The latter sells at about $4 per share, leaving a valuation of $1.44 per share or about $8.4 million for the remainder of the company's holdings, conservatively carried on the balance sheet at $11.61 million and consisting of a 76% interest in Consol. Vultee, 20% interest in N. Y. Shipbuilding Corp, 53% interest in American Central Manufacturing Co. and 100% ownership of various important subsidiaries. Their aggregate market value is $20.2 million, almost twice balance sheet valuation. The company, of course, is facing an eventual drop in manufacturing revenues and a probable decline in investment income, still conservatism could hardly be carried farther.

Post-war problems will be greatest for the makers of pursuit-type planes, such as Bell Aircraft, and Grumman Aircraft. This explains why the former is selling only slightly above last year's earnings, the price-earnings ratio being 1.1 to 1. While finances have improved, the long-term outlook is extremely clouded as the company produces no commercial planes and is likely to have difficulties, should it decide to enter this highly competitive field after the war. The stock therefore lacks attraction though selling far below book value.

Grumman is similarly situated but has a certain advantage over Bell. It makes the kind of Navy fighter which will be needed heavily in the war against Japan, and even after the war, in line with maintenance of a big navy. Thus it should enjoy at least a longer run of war-time prosperity, and fair post-war earning power is a definite prospect even if business then should decline to 5% or 10% of current volume which now is better than $300 million annually. Self-owned plant covers less than 10% of facilities used. Net working capital, $2.89 million at the end of last year, is currently estimated to have risen to about $7.5 million. With good war-time earnings likely to continue for several years, the company is in a good position to further strengthen its finances materially. At the same time, management is actively preparing for post-war business and plans to enter the private plane market, notably small amphibians.

Beech Aircraft, a maker of trainers, utility planes and small personnel carriers for the Armed Forces, has somewhat restricted finances, due to heavy capital requirements, but fundamentally has a relatively promising post-war potential. Production can easily be adapted to private or commercial plane output and basically important factors at present are all favorable to the company's continuance as a producing and earning unit after the war. However, additional funds will be needed; at present, the company is systematically strengthening working capital which since the end of last year is estimated to have risen from $1 million to over $6 million, an excellent performance. Earnings leverage is considerable, due to small capitalization, and dividends are extremely modest relative to high war-time earnings.

In respect to aircraft equities, it has frequently been said that at todays prices they are definitely cheap if they can earn one-half, one-quarter or even one-eighth of their war-time net profits. With few exceptions, this potential must be accorded to the great majority of them despite the severe competitive cross-currents likely to arise with the advent of peace. The question that plagues the market, and investors, is not only post-war competition per se but the ability of the aircraft industry to cope with it after having experienced the rigors of reconversion. In other words, the market at present levels is discounting reconversion rather than post-war prospects of a definite growth industry; only this can fully explain current prices which in many cases are down to liquidating value. It would therefore not surprise if aircrafts would show marked rallying power once reconversion problems and respective Government policy are sufficiently clarified to allow a clearer view.

Corporate Taxes Near Peak

(*Continued from page 62*)

labor a 50 per cent "extra" for work over 40 hours a week. George Spelvin, taxpayer, sees a former Woolworth sales clerk or his wife's erstwhile maid servant making $50 a week or more in a war plant, and says to himself: "So that's where my tax money is going!"

The Treasury will have a hard time convincing Spelvin that it is up to him and his like to save the country from inflation by cheerfully accepting another big boost in his taxes and further squeezing his already curtailed living standard. Being human, Spelvin will let the Government do most of the worrying about inflation.

Ironically, we have reached a state of affairs wherein the individual finds it more difficult than ever before to accumulate wealth —except through the more or less speculative avenue of capital gain, in which the effective tax is limited to 25 per cent—although corporations, even under taxes as high as 80 per cent, are able to accumulate ever-increasing assets under the enormous stimulation of wartime volume. Total corporate profits this year figure to be 13 to 14 per cent greater than last year and about on a par with those of 1929—and these profits, be it remembered, are most conservatively "stated" in most instances.

Since a less than normal proportion of earnings is being paid in dividends, corporations are accumulating liquid reserves at a greater *relative* rate than individuals. As it stands, therefore, previously accumulated capital can get a run for its money through investment in corporate equities, while at the same time taxes more and more limit the potentiality of the individual's accumulation of new capital through saved income —however large may be the aggregate of small individual savings. Small savers, except indirectly through insurance funds, have always provided relatively little of the "seed corn" of private enterprise in the form of productive investments.

So far as corporation taxes are concerned, it now appears a fairly safe assumption for the remaining duration of the war that the combined normal and surtax rate will either be left at 40 per cent or raised to no more than 45 per cent. This would have relatively slight effect on earnings in most cases, least of all on companies whose largest present tax burden is represented by the excess profits tax.

Its heaviest weight would be felt by banks and insurance companies whose income from Government bond holdings would get the full impact of the higher surtax. Because of large EPT exemptions, the average utility and railroad would be affected moderately more than the average industrial company. But with the possible exceptions of banks and insurance companies, the impact of a 12½ per cent increase in the combined normal-surtax rate would be too small to constitute a new market factor of any importance. There is some possibility —though not a probability—of a rise to 95 per cent in the excess profits tax rate, but with retention of the 80 per cent over-all tax ceiling.

The Latin-American Boom

(*Continued from page 65*)

—many of them are just emerging from what is often called a "semi-colonial status" — do not very well lend themselves to open market operations or even to Government financing through bond issues. In Brazil and Argentina such financing has been successful, but in Mexico, for example, the sale of internal bonds did not go at all.

As a whole, the war has improved the credit position of all Latin American countries. In many of them, long-term external loans have been reduced through repatriation, while many short-term ones have been repaid. Some direct investments are also changing hands—such as railways in Argentina. Yet the credit standing of most of the Latin American countries remains bad because of default on some 60 per cent of their outstanding bonded indebtedness.

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A conviction is growing that the fixed interest-bearing security financing, which during the 'Twenties was used to a large extent to stabilize various Latin American currencies or to finance the budget deficits, will in the future be unnecessary because of larger gold and foreign exchange accumulations. It will be undesirable as well, since a temporary inability to transfer debt service on fixed interest-bearing securities because of the lack of foreign exchange resources leads to the undermining of credit standing.

It is felt that financing through direct investments by private enterprise is more advantageous, since the payment of dividends is as a whole less burdensome in times of depression. The inability to transfer dividends of a private corporation will not affect in

such case the credit standing of the whole country. Moreover, investing in plants, agencies and communication facilities by private companies permits a considerable variety of methods for investing capital. Furthermore, direct investments are likely to lay a basis for closer cooperation between American and local capital. Above all, however, experience has shown that direct investments have been far more productive than fixed interest security financing has ever been.

The present time, however, is one for caution and extreme care in making any kind of investments in Latin-America, and most of all this is so of outstanding dollar bonds after the substantial speculative recovery they have already had.

Answers to Inquiries

(Continued from page 94)

company's total current assets amounted to $5,500,831 as compared with total current liabilities of $1,150,191 and net current assets of $4,350,680. The latter item increased over $1,000,000 as compared with December 31, 1941. Cash on hand amounted to $2,592,989, which, alone, was more than twice total current liabilities. You will therefore see that the company's financial position is sound and liquid. Inventories are not a problem with this company and receivables are small in relation to gross sales.

The company's earnings from 1936 to 1940, inclusive, were fairly stable. In 1941, it showed $9.62 on the Class "A" stock but earnings for 1942 showed a marked decline and amounted to only 39 cents per share of Class "A" stock. For the first six months of 1943, the company earned 96 cents on the Class "A" stock as compared with $1.18 for the same period of 1942. The Class "A" 4 per cent stock is listed on the New York Stock Exchange and has had a price range this year as follows: high 36; low 17⅛; last 36. The high in 1942 was 30 and the low was 13⅜. Arrears on this stock amount to $2 per share. The dividend payments have been irregular since 1925 and while the company has a strong financial position, it lacks appeal for anyone interested in regularity of income. The increase in outdoor advertising in recent years is being adversely affected by war conditions and post-war recovery may be somewhat retarded by the growing preference of advertisers for such mediums as the radio and weekly magazines.

Will Drug Companies Continue at Peak?

(Continued from page 81)

day; it is usually inactive. Possibly because of the substantial amounts being plowed back in research, earnings this year are running below yast year.

Bristol-Myers has only common stock outstanding and maintains a very strong cash position, with cash assets in excess of all debts at the end of 1942. The company is the third biggest producer of proprietary drugs, including many well-known names such as Ipana Tooth Paste, Sal Hepatica, Rubberset brushes, Vitalis, Mum, Ingram's shaving cream, Minit Rub, Toushay Hand Lotion, Ingram's improved cream, Peterman's Insecticide, etc. The stock is currently priced at about 11 times estimated 1943 earnings. Price margins have probably been held down by the large proportion of products going to the armed forces, but should improve after the war. The company has enjoyed excellent growth, current sales being several times as large as a decade ago. It employs a large staff of technicians and carries on clinical research in many prominent hospitals; research fellowships have also been established at several universities.

Lambert is principally known for its "Listerine" antiseptic, the best seller in its field, but in recent years the company's line has been diversified in such fields as toothpaste and powder, shaving cream and brushes, toothbrushes, cough drops, etc. Capitalization is limted to common stock and dividends have been paid for 17 years. The stock offers an attractive yield—the highest in our list. Earnings are after substantial contingency reserves (80 cents per share in 1942).

Sterling Drug is the leading maker of household remedies and proprietary goods and in addition the company has a half interest in Winthrop Chemical, a leading factor in the ethical drug field. Leading brands produced by Sterling are Bayer Aspirin, Phillips Milk of Magnesia, Fletcher's Castoria, Dr. Lyons Tooth Powder, Diamond Dyes, Danderine, Watkins Shampoo, Energine Cleaning Fluid, Cascarets, Molle Shaving Cream, etc. Net earnings have suffered somewhat from competition and narrowed price margins and have shown a moderately declining trend in recent years, though the first half earnings for 1943 were slightly better than last year. The company has maintained a good financial position.

United Drug is one of the lower priced issues, with rather large earnings leverage. The dividend record has been poor with payments omitted since 1937. However, earnings have gained substantially in the past three years and a modest year-end dividend payment is anticipated. The company is in both manufacturing and retailing, with the former accounting for a little more than half of 1942 profits. The company's products are sold through some 8,000 Rexall Drug Stores in the United States and 1,000 in Canada; only about 568 stores are directly owned by the company. Earnings in recent years were distorted by non-recurring profits from sales of securities and losses from guarantees of Liggett leases. The stock sells at a low price-earnings ratio due to the poor dividend record and other factors.

Sharp & Dohme manufactures some 4,000 standard pharmaceutical and biological products together with some proprietary articles. The company has been moving over into the "ethical" field since 1936 when advertising was changed to that line. The financial position is strong but capital set-up is complicated by issuance of notes, convertible preferred stock and common stock

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options to officers. Earnings were irregular during the 1930's, with common stock deficits in three years, but improved substantially in 1941-42. This rather irregular record is reflected in the low price-earnings ratio which may also reflect the slightly disappointing first half report for 1943, showing no increase over last year.

McKesson & Robbins is the largest drug wholesaler in the United States, serving about 30,000 retailers, or one-half the total number. It also produces Calox Tooth Powder and some other specialties, and is active in the wholesale liquor business. The company has been strengthened by recapitalization. The stock sells at a moderate price-earnings ratio. No interim report has been issued and earnings may be affected somewhat this year by changes in the liquor industry.

Allied Laboratories, which represented a merger of five companies, specializes largely in animal serums, sales being about equally divided between products for human use and animal use. It is a leading maker of anti-hog cholera serum and virus for the veterinarian profession. Selling costs are relatively high. Share earnings have been somewhat irregular but it has made a good showing in recent years. The recent phenomenal growth in hog population should benefit the company. The company does not appear to be as active in research as some others in this field, and this seems reflected in the relatively low price-earnings ratio.

Clues to Dividends and Prices

(*Continued from page* 86)

to preponderance of either opinion in shaping dividend policy.

Among outstanding gainers, the showing of Atlantic Refining is noteworthy with third quarter results continuing the strong uptrend evidenced earlier in the year as the effect of gasoline rationing is being further offset by mounting military shipments. Net of American Brake Shoe declined modestly against last year but rose from the 72c realized in the second quarter with the company shifting increasingly to normal output in line with the rising call for railroad equipment. N. Y. Air Brake's showing reflects similar factors; future comparisons in both cases should become increasingly favorable.

As I See It!

(*Continued from page* 57)

that will bring light to a darkened world.

Without it, the situation in Europe would be desperate, after the Nazi collapse. With Germany prostrate there will not be a strong power left on the Continent. France, the only likely candidate, lies shattered and impoverished, so that she will be unable to assume her accustomed place in the European scene. Because of her low birthrate, she never recovered from the last war. Today her plight is pitiable. Her virile manhood is being held by the Nazis as prisoners of war and her youth has been transported to Germany as slave labor. This forced migration of her men will further accentuate the weakness which made France a prey of political skullduggery. Whole villages in the northern section, whose population was dispersed during the last war, contained very few Frenchmen after 1918. Paris was overrun by adventurers spreading half-baked political ideas which finally were responsible for the French collapse.

As a result of the German occupation France was denuded of her industrial capacity. Whatever the Germans found useful in any way was dismantled and removed to Germany and elsewhere under Nazi control. What was left is largely inoperative due to lack of equipment, labor and raw materials.

The great iron and steel industry of France—the backbone of French industrial power—will be in bad shape after the war and a quick revival may be difficult, for lack of funds is bound to force a movement away from heavy industry toward the traditionally agricultural-peasant economy that was old France.

French income from outside sources, too, will be greatly curtailed because she has lost her European as well as her colonial investments. The luxury industry, which depended so much on tourist trade for its export markets, will be difficult to revive because French artisans have either been dispersed or killed — and the leadership has migrated to other lands. Moreover the resources of the Bank of France, which have always been relied upon to further French interests abroad, have been so depleted by the payment of reparations and occupation fees to Germany that France will not be able to take an international position in finance for a long time to come. Today there are 400 billion paper francs outstanding.

All in all the situation is a heart-breaking one. And, if this is true of once powerful France, how much worse is the condition of the rest of Europe where the countries were notoriously weak and impoverished before the war made their lot still worse.

Under these circumstances the power for good or ill on the European continent will rest with England and Russia. And, because it will have an important bearing on our security in the Atlantic, the United States must be a party to such plans, regardless of humanitarian feelings which may prompt us to be Good Samaritans to a distressed people. For, unless a comprehensive and sound plan is developed for the reconstruction of Europe and the rehabilitation of her people, the comeback will be very slow indeed—with political disturbances on the increase. This should not be permitted to happen. It can only breed anarchy and further disintegration, which will have their repercussions on our own country — for Europe is our Motherland.

It is hoped, therefore, that a broad and sound outlook will prevail and that this time commonsense, rather than politics, will be relied on in achieving an objective solution of the titantic problems before us.

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NATIONAL WAR FUND

IMPORTANT MESSAGE

To investors whose securities are not supervised professionally

FROM his broad experience, a veteran investor once said:

> "Sound investment counsel is the cheapest thing you can buy — free tips are often most costly!"

Recently one of our clients in New York who pays us $300 a year for the supervision of his $23,000 portfolio rephrased this in his letter as follows:

> "I am very pleased and appreciate your efforts. There is simply no word for your timing. This is worth to me five times the sum of $300. I would feel better if your service were $1,000."

An Investment Which Pays for Itself

The millions of dollars in large and moderate sized accounts placed and kept under our supervision, year after year, bear eloquent testimony that our annual charge represents an investment which can pay for itself many times over in increased safety, income and healthy capital growth.

Yet, many persons who employ the services of the lawyer, architect and accountant to help them with their special problems, neglect to give their investments the protection and advantages of competent professional management.

They continue to risk the safety and progress of their funds on tips from biased sources, sales presentations, intermittent suggestions from well-meaning friends.

Is it any wonder that of all persons who are rich at thirty-five and live to be sixty-five, 87% lose the bulk of their estates in the intervening years.

Your Problems Are Our Business

The coming year will be a difficult one for the investor with a substantial security list. While the major advance should continue, it will become more and more selective in nature. The fortunes of companies, industries and countries are changing drastically.

Obviously a fully equipped and trained professional service, devoting all its time to the management of investments should be able to do a far more effective job in solving your investment problems than you can do unaided or with limited assistance.

Investment Management Service is completely personal. Every security recommended is selected for the successful accomplishment of your individual wishes and aims. All your issues are continuously supervised and you are advised when any purchase or sale should be made.

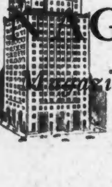
How Our Fees Are Computed

Our annual fee is governed entirely by the size of the portfolio to be supervised. The minimum yearly charge is three hundred dollars. Our standard rate is ¾ of 1% of the market value of stocks and cash plus ½ of 1% of the value of your bonds.

According to the Revenue Act of 1942 you can deduct our fee from your income for Federal income tax purposes—considerably reducing the net charge to you.

If you are not completely satisfied with your investment progress we invite you to take advantage of the special invitation below. We will price your list currently and quote an exact fee for supervision of your account in the coming year.

Special Invitation... *without obligation, we offer to send you a confidential, preliminary review of your portfolio if it exceeds $20,000 in value—commenting frankly on its possibilities for capital growth, its income factor and its diversification. Your least favorable issues will be specified. Merely send us your list of holdings and objectives in as complete detail as you care to give.*



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A Division of The Magazine of Wall Street

90 Broad Street — New York, N. Y.